

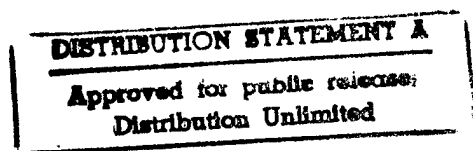
**WESTERN INTERNATIONAL UNIVERSITY**

**A STUDY OF THE DISCOUNT RETAIL INDUSTRY  
AND  
WAL-MART CORPORATION**

**A MAJOR RESEARCH PAPER SUBMITTED TO  
THE FACULTY  
IN CANDIDACY FOR THE DEGREE OF  
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<sup>1</sup> Michael E. Porter, *Competitive Strategy* (New York: Macmillan Publishers, Inc., 1980), 4, quoted in Al Edge, *The Guide to Case Analysis and Reporting*, 4th ed. (Honolulu, HI: Systems Logistics, Inc., 1991), 24.

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## **Executive Summary**

By no mistake, Wal-Mart is the reigning king in the retail industry.

Conscientious decisions as to what it would take to capture and retain the number one ranking in the discount retail market have been evident since Wal-Mart's inception in 1962. From concepts borrowed from other discounters, Sam Walton, the founding father of Wal-Mart, built on, and matured these ideas resulting in his corner, five-and-dime-stores becoming a colossal operation, and one of America's greatest economic success stories.

This paper will explore the creative techniques in management, marketing, and technology used by Wal-Mart, and explain the methodology of how Wal-Mart maximizes these disciplines of business for competitive advantage. In addition, due to near-saturation in the United State's market, Wal-Mart is concentrating heavily on international expansion into seven foreign countries. This paper will also examine successes made abroad and the problems encountered in cultural barriers while attempting to transplant Wal-Mart's thriving domestic operations into different parts of the world.

Strengths abound. If Wal-Mart were to receive a report card, it would receive "Excellent" ratings across the board, with the exception of one area. Wal-Mart would most likely receive "needs improvement" in the areas of pricing policies, community service; specifically giving back to the community, and its use of "strong-arm" tactics in implementing its aggressive growth strategy. Wal-Mart's hawkish expansion into small towns across the country has caused an uproar from coast-to-coast. This discontent is not only being voiced by those most affected; the small business owner,

but is shared by local citizens who claim that Wal-Mart's "big box" approach is stealing away their small town appeal, as well as killing the local sense of community.

## **CHAPTER ONE – INTRODUCTION**

### **1.1. IMPORTANCE OF THE DISCOUNT RETAIL INDUSTRY:**

To fully understand the niche of discount retail, the reader must first understand the stark differences between discount retail and traditional retail. This section will discuss these differences, which ultimately determine where consumers choose to shop.

Discount retail stores saturate the country and can be found everywhere from small town America, to the hearts of big cities. Because discount retailers buy a wide variety of products at enormous economies of scale, and because they are made available in a warehouse setting, they can offer these goods to consumers for substantially lower prices. As more and more consumers rely on discount stores to purchase everything from diapers to draperies, their popularity is steadily growing.

The discount retail industry lies at the bottom of the retail scale under full service, full priced stores such as Bloomingdales and Macys, and medium priced, yet full service stores, such as J.C. Penney and Sears. These four stores represent traditional retail stores. Stores such as Wal-Mart, Kmart and Target typify discount retailers. The two most important and appealing characteristics of the discount industry to consumers are its ability to sell products at lower costs, and the convenience it affords shoppers by offering a wide selection of products and services under one roof. These stores, born from the “mom and pop” and “five and dime” concept of Post World War II sell everything from brand name televisions to pantyhose, and most, if not all, offer snack bars, automobile service centers, pharmacies, garden centers, one-hour photo labs, and a myriad of other “one-stop-shopping” services. In addition, Kmart, Target and Wal-

Mart, who are referred to in this industry as “the big three,” have ventured into the grocery business in an attempt to attract more customers to boost sales.

The single most notable aspect, which sets full and medium priced stores apart from the discount retailer, is customer service. In general, customer service involves anything and everything that will make a consumer’s shopping experience more enjoyable and hassle-free. This service is not only afforded to the customer while in the store, but after the purchase as well. While discount retailers attempt to make the shopping experience convenient, they by no means cater to customers, nor do they staff their stores with highly knowledgeable sales people.

In sum, consumers who undoubtedly pay more for goods from a traditional retailer are quite simply paying for service and sales staff expertise. Those who purchase goods from a discount retailer save money, but forego better customer service. The following factors are varied and many, but represent the numerous trade-offs today’s consumers are faced with when determining where to spend their money:

<b>Factor</b>	<b>Traditional</b>	<b>Discounters</b>
♦ Shopping Experience	Relaxed, more enjoyable	More crowded, somewhat rushed
♦ Store Atmosphere	Pleasant, more upscale	“Big-box”/warehouse less ornate
♦ Store Personnel	More knowledgeable, professionally dressed	Less expertise, casually dressed, staff uniforms
♦ Allure	Prestige attached to upper-class name. More appealing to upper-class	Cost savings, but negative connotation associated with discounters



◆ Quality of Products	Higher quality/top-of-the-line, name brands	High presence of house brands and off-brand products
◆ In-Store Service	Alterations, gift wrapping, cash registers Throughout. No shopping carts.	No alterations, no gift wrapping, check-outs at exits only, but offer in-store fast food, photo-development, vision centers, garden centers, home-care departments, tire and lube auto centers, automatic teller machines, and shopping carts
◆ After-Purchase Services	Home delivery, installation, store warranty and maintenance programs	None
◆ Catalogue Sales	Comprehensive service	None
◆ Product Diversity	Less variety, selective items	Everything imaginable under one roof
◆ Location	Found in more populated Areas. Often in shopping malls. Not as accessible as discount stores	Near saturation.
◆ Pricing	Higher cost of doing business passed on to customers. Ambiance costs	Lower overhead costs saves customers money
◆ Hours of Operation	Usually ten-hour days, seven days a week. Closed on many holidays	Many open 24 hours a day, 365 days a year

These differences aside, competition in the retail industry is intense. Whether it be through innovative management, marketing, information technology, or moving operations outside of the United States, gaining some kind of competitive advantage over the competition is what sets one retailer apart from another.

## **1.2. POSITION OF WAL-MART:**

Based on net sales at the end of January 1997, Wal-Mart Corporation ranked first among all retail department store chains and among all discount department store chains in the world.<sup>1</sup>

Wal-Mart's fiscal year 1997 net sales increased 12%, and international sales increased by 32% over fiscal year 1996. As of 31 January 1997 the company had total assets of \$39,604 million compared with \$37,541 million in 31 January 1996.<sup>2</sup>

## **1.3. RATIONALE FOR SELECTION OF ORGANIZATION AND INDUSTRY:**

I decided to research this industry not only because I thought it would be enjoyable, but felt I could become a more educated consumer as a result of the undertaking. In addition, the more I researched this industry, the more interested and intrigued I became as to the enormity and complexity of day to day operations. Another

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<sup>1</sup> Wal-Mart Stores, Inc., "Securities and Exchange Commission, Form 10-K, Narrative Description of Business, Competition," for the year ended 31 January 1997, 7.

<sup>2</sup> Wal-Mart Stores, Inc., 1997 Annual Report (Bentonville, AR: Wal-Mart Stores, Inc., 1997), 27.

appealing consideration for choosing the retail industry is the ready access to open-source information.

#### **1.4. ORGANIZATION OF THE CASE:**

This paper will identify and examine practices in management and marketing, the use of information technology, and basing operations outside of America's borders from an industrial and organizational perspective. Kmart and Target stores will be used as models to represent discount retail stores from an industrial perspective, while Wal-Mart Corporation will be examined from an organizational viewpoint.

## **CHAPTER TWO – INDUSTRY ANALYSIS:**

### **2.1. HISTORY OF THE DISCOUNT RETAIL INDUSTRY:**

The birth of discount stores can be traced back to the early 1930s, but remained underdeveloped until after World War II. To meet postwar consumer demands, discount stores blossomed during the 1950s as retailers took note of the success grocery supermarkets were experiencing. Following the supermarkets lead of selling an amalgamation goods at a minimal profit margin, discounters started to offer goods at prices 10 to 15% lower than traditional department stores. In addition, fair-trade laws disallowing retailers to sell products at prices dictated by manufacturers also helped open the door to this industry. To compensate for the cheaper rate on the goods they offered, discounters additionally cut costs by measures such as not offering delivery services or credit. Educated on the self-service concept of supermarkets, and now able to watch more sophisticated advertising on television, consumers were willing to investigate the new concept of no-frills shopping known as “discounting.”

During the 1960s, as consumers became more confident with discount shopping, more discounters emerged from local to national levels. In 1962 Kmart, Target and Wal-Mart stores each opened their doors for the first time. As a whole, the industry saw sales increase from \$2 billion in 1960 to \$19 billion in 1970. During the 1970s, the discount industry showed a 9% annual growth rate with new store openings growing at 5%. The 1980s saw discounting grow at 7% with new stores increasing by only 1%. By the 1990s discounting retailers showed an 11.2% growth rate and 2% growth of new

stores. Analysts have attributed the slowing growth rate of new store openings to discounters placing more emphasis on the refurbishment of existing stores versus shopping for new real estate. Near-market saturation of the industry discourages opening new ones.<sup>3</sup>

Of the top ten discounters, commonly called five and dime stores, already operating in 1962 before Kmart, Target and Wal-Mart opened for business, not one remains in 1998. Several large discount chains, such as King's, Korvettes, Mammoth Mart, W.T. Grant, Two Guys, Woolco, Zayer, and most recently F.W Woolworth, have either failed or been acquired by the survivors.<sup>4</sup> As a result, the industry has become more concentrated as Kmart, Target and Wal-Mart lay claim to approximately eighty percent of the market share in this industry.

## **2.2 INFORMATION RESOURCES MANAGEMENT:**

Capitalizing on information technology is imperative to compete in today's retail industry. Retailers, like never before, are depending on the latest in technology to outdistance themselves from their competition, as the use of information technology has become the single most important factor to competitive advantage.

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<sup>3</sup> "Wal-Mart Stores, Inc." President and Fellows of Harvard College, Boston, Massachusetts, Harvard Business School Study # 9-794-024, revised May 1995.

<sup>4</sup> Ibid.

### **2.2.1. Point of Sale (POS) Software:**

Computers are used to capture sales data at the point of sale. In essence, it is at the point-of-sale where data on the demand for a product is fed into the supply chain. This information, if not captured accurately and dispersed quickly to manufactures and suppliers can quite simply make or break a retail organization. Sales, payroll, mark-downs, pricing, style, size, color, weight, and even the flavor of items are examples of the information this data is providing to retailers. The slightest error in any of these categories could lead to misinformation to distributors and suppliers resulting in extreme excess costs incurred in reshipping or storage, or both.

Traditionally, POS software captures data from a retailer's cash register and sends this data to the company's corporate headquarters where it is analysed for the effectiveness of sales and markdowns. Information is then passed to the company's distributors and suppliers. Cheryl J. Goldberg, in her article "Starring Role: Point-of-Sale Software is earning Rave Reviews as an All-In-One Way to Track Your Company's Sales," writes that "POS software let's you slice and dice sales data in a variety of ways to determine what products from what vendors are selling best at what time. Using this data you can figure out everything from the optimal ways to arrange shelves and displays to what promotions are working best and when to change seasonal promotions."<sup>5</sup>

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<sup>5</sup> Cheryl J. Goldberg, "Starring Role: Point-of-Sale Software is Earning Rave Reviews as an All-In-One Way to Track Your Company's Sales," Entrepreneur, August 1996, 45.

She points out the additional advantages retailers acquire from using POS software:

- ◆ Analyzing sales data to maximize return on investment.
- ◆ Analyzing sales histories to assist in buying decisions for seasonal and holiday items.
- ◆ Improving pricing accuracy by integrating bar-code scanners, and
- ◆ Capturing customer histories and mailing lists for promotional and marketing uses.
- ◆ Reducing stockage overhead.<sup>6</sup>

A ground-breaking practice is currently being exercised with POS data. According to an article titled "The New ROI in Point of Sale," there is an industry-wide trend taking place with the use of POS data known to marketing and sales personnel as "real-time-cross-marketing." In simple terms it means using a company's information technology assets in a most cost-effective manner by trying to extend a single purchase into two or more. This is done while a customer is at the checkout counter. While the customer is paying for items purchased, their sales history is electronically retrieved from the retailer's data base, and instantaneously analyzed to determine what type of items, based on their previous buying behavior, they can be offered in an attempt to boost a retailer's sales. The article states that although this concept is easily understood on paper, successful implementation is harder than it seems. Matching past purchases with current purchases to determine an

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<sup>6</sup> Ibid.

immediate void “requires both skill and tact – first to find the information, and then to present the product in such a way as to make the customer feel as if you’re not intruding.”<sup>7</sup>

Intrusive or not, as technology becomes more advanced, retailers will use data in nontraditional manners as they refine their business practices. The cliché that “information is power” is ringing true in the retail industry.

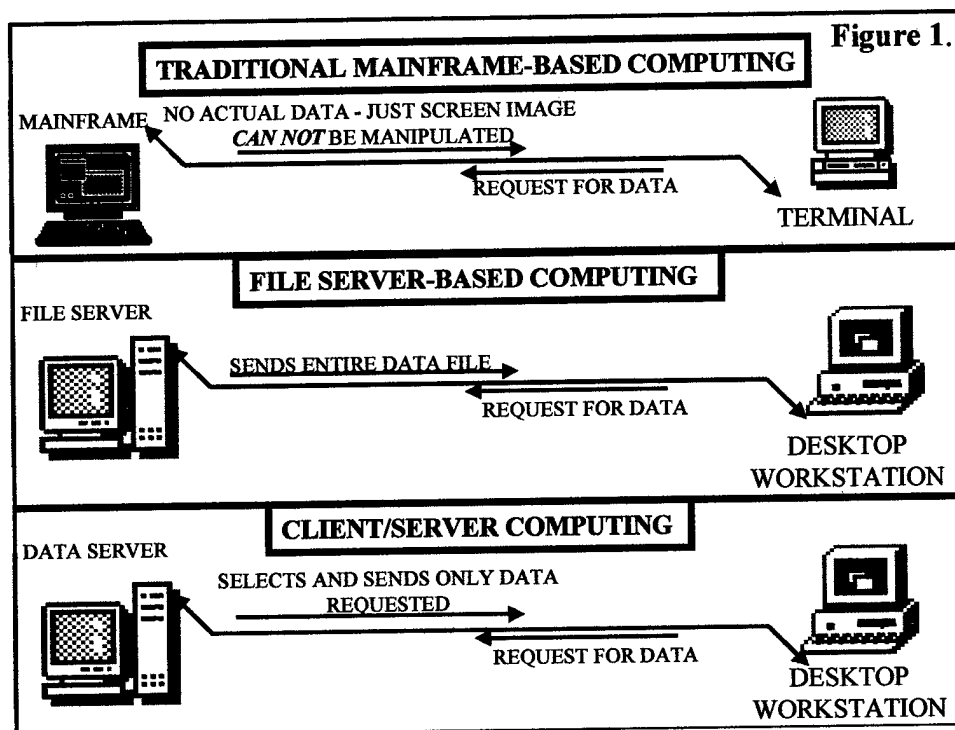
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<sup>7</sup> Diane Frank, “The New ROI in Point of Sale,” Datamation Magazine, November 1997, 74.



### 2.2.2. Client/Server Systems:

Client/Server computing is a relatively new term that refers to the cooperative interaction between two or more distributed computers in which one computer, known as the client, queries another computer, known as the server, for resources (see figure 1).<sup>8</sup>



In the retail industry, the clients are warehouses, distributors and suppliers who request replenishment and sales data from the server, in this case corporate headquarters where information is stored.

<sup>8</sup> Steven Alter, Information Systems: A Management Perspective, (Menlo Park, California, The Benjamin/Cummings Publishing Company, Inc., 1996), 384.

Client/server computing is quickly overtaking centralized mainframe computing and file-server operations currently used by retailers. The drawback to a mainframe configuration is that all of the data processing is solely conducted and controlled by the mainframe system where data is stored, manipulated and updated. When information is queried by a user terminal or client, the mainframe sends only data that can not be manipulated by the user. In file-server based computing, some of the characteristics of client/server computing are incorporated, however, when a user terminal requests information from the file-server, the entire data file is transferred to the user's desktop computer. When the data arrives at the user's desktop computer, software housed inside the user's computer sorts the file for the specific data requested. In short, in file-server computing, all data is stored at the file-server, or back end, but all processing takes place at the personal computer at the desktop workstation, or front end.

In client/server computing cooperative processing takes place at the front and back ends. An intelligent database at the server stores information in a format known as "Structured Query Language." When information is requested by the client, or front end, the back end database sorts and sends only the specific information requested.

Retailers who are using client/server computing certainly have a competitive advantage over their rivals as they save the time associated with manufacturers and suppliers having to sort through mountains of irrelevant information while searching for specific sales performance or replenishment data on certain items. Retailers are also migrating toward client/server applications because of its cost-effectiveness over

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mainframes, hardware and software cost savings, less maintenance and manpower, and its flexibility to change business applications for ever-increasing business needs.

### **2.2.3. Decision Support Systems:**

A decision support system is a model-based business information system designed to assist in decision making where the process is relatively unstructured, and only part of the information needed is available. A decision support system allows managers easy access to information stored in a database, and provides easy-to-use tools for manipulating data for analysis. Most commonly, decision support systems are used by retailers to segment customer groups, manage advertising campaigns, understand the results of promotions and understand buying habits, regardless of the size of their databases.<sup>9</sup>

With these supporting tools, management can more easily control complicated manufacturing and service operations. The manager provides the logic to structure the problem, and ultimately makes the decision.<sup>10</sup> Bill Hopkins, a research director at Gartner Group Incorporated, claims that today's decision support systems deliver above and beyond the analytical tools of old. For example, a department store using simple analytical software is able to determine how many customers purchased hosiery, and how many customers purchased cosmetics, but not how many customers purchased both. New decision support systems will deliver this kind of information

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<sup>9</sup> Esther Sheen, "Know Your Customer," PC Week, 21 October 1996, E1.

<sup>10</sup> Mark A. Vonderembse and Gregory P. White, Operations Management: Concepts, Methods, and Strategies, (Minneapolis/St. Paul, Minnesota, West Publishing Co., 1996), 55-6.

to reveal the average amount of money spent on each. This information also assists store managers in their placement and arrangement of complimentary selling items. Retailers can now gain a better perspective on which items are more popular and selling quicker than others. This ultimately leads to a tighter inventory, thus savings in inventory-related costs.

Many retailers are currently investing heavily in forecasting software to help bridge the gap between supply and demand during specific seasons. For example, the managers of the Sierra Vista, Arizona Kmart and Target discussed their use of a forecasting tool called INFOREM (Inventory Forecasting Model). This cutting edge technology merges historical sales data with current sales information to help ensure managers maintain adequate stockage of certain items which sell seasonally, as opposed to items which maintain steady, but lower levels of sales all year long. Sue Dennis, the manager of the Sierra Vista Target store explained that toothpaste sells at an approximately steady rate year-round. On the other hand, she says that up until a few years ago when she began using INFOREM, she could not get enough umbrellas in time for sales during the summer monsoon season. Now, through the use of monthly INFOREM reports, she is able to order surpluses of high-demand, seasonal items well in advance. She further elaborated the significance of this tool by explaining that she relies heavily on INFOREM to order pharmaceutical items like Fixodent, Geritol and Fibercon during the winter months when many senior "snow-birding" customers travel to Arizona to escape colder weather elsewhere.

Currently, because of the astronomical cost and complexity involved in linking decision support systems to operational systems only the leading retailers are using

decision support systems in conjunction with existing marketing and information systems.

### **2.3. MANAGEMENT OF STRATEGIC ISSUES:**

The managers of Kmart and Target say their strategies of competition address low cost, differentiation, and focus. Says Ray Wharton, the manager of the Sierra Vista Kmart says, "Kmart's biggest focus right now is to have our customers identify with our 'American Fare' products as not just less expensive, but as good if not better quality than the national brands. Therefore, the customer wins by getting a quality product, and Kmart makes a greater profit."<sup>11</sup> Wharton points out that Kmart makes approximately two cents profit on a bottle of Windex, but can make as much as twenty cents profit on Kmart's "American Fare" glass cleaner.

Sue Dennis explains that Target's strategy is aimed at staying competitive with Kmart by continuously exercising competitive low pricing, focus on customers (whom Target associates refer to as "guests"), and product differentiation in its exclusive line of clothing.

As Kmart and Target race with Wal-Mart for superiority in the Discount Retail Industry, past and present performance suggests that the battle between these heavyweights will only intensify, while rendering smaller discounters defenseless unless these less significant operators refocus their efforts niche markets, and not wide-scale product offerings.

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<sup>11</sup> Ibid.

### **2.3.1. Porter's Five Forces of Competition:**

Harvard Professor Michael E. Porter's book Competitive Strategy propelled the concepts of strategic thought and business planning into the foreground of the industrial environment. The cornerstone of the book is an article from the Harvard Business Review, in which Porter explains the five forces that shape competition in an industry. His well-defended and analytical framework helps strategic managers to link remote factors to their effects on a firm's operating environment.<sup>12</sup>

### **2.3.2. Threat of Entry:**

Threat of entry into the Discount Retail Industry is negligible at this time. Many smaller discounters can no longer compete with the huge scale and low prices of discount giants like Kmart and Target. This David and Goliath scenario has made entry into this industry not only extremely risky, but just plain unattractive. In fact, many smaller discount chains have exited, as evidenced by a string of recent Chapter 11 casualties to include Caldor, Bradlees, Lechmere, Jamesway, Edison Brothers Stores, and Hastings Stores. What's to blame? According to an article "Reinventing the Store: How Retailers are Changing the Way We Shop" the main culprit is the economy. The article points out that "Economic woes are real enough...Factor in car leases, and the fact that consumer debt has hit an all-time high, stealing 16.6% of disposable income to cover individual monthly debt service payments. And with big

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<sup>12</sup> Michael E. Porter, Competitive Strategy (New York: Macmillan Publishers, Inc., 1980), 4, quoted in Al Edge, The Guide to Case Analysis and Reporting, 4th ed. (Honolulu, HI: Systems Logistics, Inc., 1991), 24.

employers, including 3M and AT&T, announcing yet more job cuts, consumers aren't in much of a mood to shop."<sup>13</sup>

Strengthening this rationale is the recent closing of F.W. Woolworth five and dime stores in July 1997. Woolworth closed its last remaining 400 stores after 117 years in business because it could no longer compete with colossal discounters like Kmart and Target. Also, as the competition between Kmart and Target intensifies, each store is expanding its holdings across the country. Because of this, smaller regional discounters are feeling the pinch, and are being muscled out of ideal locations. Beth Halligan, Division Executive for BankBoston, supports this, stating, "these larger stores are making it increasingly tougher for the smaller players to get prime sites, because the best real estate goes to the bigger guys. Lack of capital also limits the regionals' ability to develop their own apparel brands, putting them at a further disadvantage."<sup>14</sup> Furthermore, the smaller stores can not compete with the state-of-the art distribution operations of Kmart and Target, whose shelves are regularly stocked with greater varieties of products, because of continuous delivery from their privately owned, in-house distribution centers.

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<sup>13</sup> Mary Kuntz and Susan Woolley, "Reinventing the Store: How Smart Retailers are Changing the Way We Shop," Business Week, 27 November 1995, 84.

<sup>14</sup> James B. Frantz, "Retail Spotlight: Discount Stabilization Comes at a Price," <http://www.internetreview.com/pubs/scw/97feb/scw9702m.htm>; Internet; accessed 10 August 1997.

### 2.3.3. Intensity of Rivalry:

Rivalry is fierce in this industry as indicated by the recent advertising campaign launched by Kmart. Kenneth Watson, a former Vice President of Pepsi Cola Company, took over as Executive Vice President of Marketing and Development for Kmart in October 1994, with the mission to resurrect Kmart's slumping sales. Since then, Watson has invested \$175 million into the redesign of Kmart's advertising operations. Says Watson, "Kmart wants to be in control vs. having to react to what our competition is doing."<sup>15</sup>

Moreover, the Discount Retail Industry is now dominated by major players such as Kmart and Target who are both aggressively steering toward gaining as much market share as possible in an attempt to ward off the smaller competitors. Past successes have provided each with the capital to test the new concept of a combination of general merchandise and grocery sales under one roof in an attempt to attract shoppers from two fronts. Says Halligan, "General merchandise retailing is a zero sum gain [*sic*]. You need another category that is stable."<sup>16</sup> Discussing Target's long term plans to expand, Sue Dennis says, "We're waiting to see how well Kmart's supermarkets do. That's why we've only opened seven Super Targets (general merchandise and grocery store combinations) in Utah. We're not ashamed to say we'll let Kmart test the market, and then build from their mistakes."

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<sup>15</sup> Leah Haran, "Venture Shifts Strategy: Weary of Wal-Mart, Chain Retools as Value Department Store," Advertising Age, 20 November 1995, 28-9.

<sup>16</sup> Frantz.



#### **2.3.4. Threat of Substitutes:**

Initial analysis would indicate that the threat of substitute sources of merchandise in the Discount Retail Industry is high because Kmart and Target's inventories consist of similar quality products at very comparable prices. In addition, as Kmart and Target compliment each other's expansion into less populous areas, consumers are not faced with having a single choice of discounters. Therefore, unless a shopper genuinely has a preference for Kmart over Target, more times than not, whichever site is more convenient will receive the shopper's business. The managers at both Sierra Vista stores revealed that they currently honor all competitor's advertised or regular prices. This practice, known as "price matching," basically guarantees consumers that they can purchase a specific product at the lowest posted or advertised price in the surrounding area. This tactic evens the retailing playing field, and significantly lessens a discounter's chance of losing a loyal customer to another retailer who is selling the same product at a lower cost.

On the other hand, if consumers have a preference for a specific brand carried exclusively by a certain retailer, brand loyalty will keep shoppers coming back to the retailer who carries it. For example, Ray Wharton explained that many consumers prefer Kmart's exclusive line of Kathy Ireland clothing and exercise equipment, while others visit Kmart to buy Martha Stewart's linens, bedding, and coordinating housewares.

Sue Dennis explains that many of Target's customers prefer their "Honors," "Cherokee," or "Greatlands" exclusive lines of clothing. She mentioned that Target's

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“Honors” clothing has received top billing from Consumer Magazine over much higher priced merchandise, including Ralph Lauren’s Polo line in terms of quality and pricing.

In sum, a retailer’s competitive advantage lies in exclusive lines of products, whereas substitute products, such as basic everyday consumables, are evenly priced from store to store. The profits Kmart and Target make on these staple items are kept in check by price conscious consumers who demand equitable prices from store to store.

#### **2.3.4. Bargaining Power of Buyers and Suppliers:**

One might assume that the consumer’s freedom of choice is diminishing just as fast as discount retailers are disappearing. In actuality, the retailers still standing offer similar commodities within pennies of the rest of the discount retail survivors. Therefore, freedom of choice is high, and this, along with low switching costs, results in high bargaining power of buyers.

A recent article in U.S. News & World Report, titled, “They Drop Till You Shop: Montgomery Ward Stumbles. Is America Overstored?” highlights this bargaining power, newly acquired through freedom of choice:

Perhaps more important, consumers today have the power to time their purchases like never before. Several factors have enabled them to cherry-pick the every best values: incessant airfare wars, big rebates on autos, vicious competition among consumer electronics chains, frequent department store sales, and the rapid spread of discount outlet malls.<sup>17</sup>

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<sup>17</sup> William J. Holstein and Kerry Hannon, “They Drop Till You Shop: Montgomery Ward Stumbles. Is America Overstored?” U.S. News & World Report, 21 July 1997, 52.

According to Mona Doyle, President of Consumer Network Inc., a Philadelphia market-research firm that surveys shoppers, consumers now have less time, money, and patience for the whole shopping experience. Doyle points out that approximately 75% of women are currently working either part-time, or a full work week in addition to taking care of the family chores. This dramatic change over the 1980s when women had more time and money has resulted in a reduction in mall visits from a high of three a month in the 1980s to approximately one and a half visits in the 1990s.<sup>18</sup>

More specifically, the article points out that women used to visit approximately seven stores while at the mall during the 1980s, now they are visiting just three. "Besides being tightfisted, the consumer is increasingly stressed out, and has lower tolerance for all the imperfections of retail," says Doyle.<sup>19</sup> The low switching costs have resulted in consumers becoming precision shoppers who will buy only from retailers who can offer exactly what the buyer wants at a fair cost. This new breed of shoppers, "has innovators, in sector after sector, using know-how, technology, customer focus, and merchandising muscle to strip retailing of expense, annoyance, and inconvenience."<sup>20</sup>

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<sup>18</sup> Kuntz and Woolley, 84.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid., 86.

Ray Wharton states, "If we don't make it ourselves, there are very few items in the market that we can't get from another supplier of comparable quality, should a problem arise between us and our primary supplier."<sup>21</sup>

Under the label "American Fare," Kmart produces many of its own consumable items, from health and beauty aids to over-the-counter drugs, dog food, and even crackers. Likewise, Target carries its own exclusive label for household products such as aluminum foil, freezer bags, cleaners, tissue paper, health and beauty items, soaps, and shampoos. Discussing brand name products Wharton comments, "If Wrigley's Chewing Gum hikes their prices by a ridiculous amount, we'll just pick up Beeman's, or some other type of gum, and drop Wrigley's; therefore, prices more or less stay comparable across the board."<sup>22</sup>

However, according to the interviews conducted, the bargaining power of suppliers can be substantial when it comes to specialty items. For example, both managers expressed their reliance on suppliers in the case of fad items such as the recent craze over "Tickle Me Elmos," and "Virtual Pets." Regardless, neither of these two major players appears to be at the mercy of their suppliers. In fact, because of this insufficiency of substitutes, the bargaining power of suppliers is low.

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<sup>21</sup> Ray Wharton, Manager, Kmart Department Store, Sierra Vista, Arizona, interview by author, 9 August 1997, Sierra Vista, Arizona, author's notes.

<sup>22</sup> Ibid.

## **2.4. CONCEPTS IN MARKETING:**

### **2.4.1. Identification of Target Markets:**

According to Philip Kotler, author of Marketing Management: Analysis, Planning, Implementation, and Control, retailers are accustomed to saying that the three keys to success are "location, location, and location."<sup>23</sup> The accurate defining of a geographic area, and the potential customer base within that area, is perhaps the most critical, and without a doubt, the first step to establishing a department store.

If applicable, the seller of a home can accentuate the close proximity, thus convenience, to schools, churches, transportation networks, and shopping centers. Conversely, retailers target strong population bases from which to draw potential customers. Because of intense competition between retailers, extensive analysis is conducted by all retailers. Kotler points out that analysis on the placing of a potential store begins with defining a particular region of the country. An apparent need for the product or service must exist. For example, a manufacturer of ice skates would not attempt to set up shop in Arizona. Next, a particular city is chosen, and then a specific site.

A few of the tools used by retailers to assess the potential location of a store are: traffic counts, surveys of consumer shopping habits, and analysis of competitive locations.<sup>24</sup> Once a location is selected and a store established, its potential sales effectiveness can be measured by the following four indicators: number of people

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<sup>23</sup> Philip Kotler, Marketing Management: Analysis, Planning, Implementation and Control, 8<sup>th</sup> ed. (Upper Saddle River, New Jersey: Prentice Hall, Inc., 1994), 572.

<sup>24</sup> R.L. Davies and D.S. Rogers, eds., Store Location and Store Assessment Research, (New York: John Wiley, 1984).

passing by on an average day, percentage who enter the store, percentage of those entering who buy, and the average amount spent per sale.<sup>25</sup>

Ray Wharton explained that Kmart exercises numerous techniques to determine potentially profitable areas, but most important are its studies on demographics. He says that Kmart appeals to the mothers of small children, and families of lower to middle-level incomes, therefore, Kmart corporation heavily considers these specific qualifications when searching for a potential location. Wharton explained that, while traffic analysis is an important factor to consider, Kmart, because of some painful lessons from the past, considers demographics more important. Apparently, a Kmart in El Paso, Texas had to eventually close its doors when the city unexpectedly changed the direction of the traffic flow in front of the store from two-way to one-way. Says Wharton,

This required customers to travel past the store about a mile and a half, and then make a U-turn. Sometimes we have an excellent area, and the city or town will change the traffic pattern. It's totally unpredictable, and there's no stopping it. It killed us, along with a lot of other stores in the plaza we were in.<sup>26</sup>

Interestingly enough, Wharton explained that Kmart is not ashamed to follow the lead of another retailer setting up shop. Says Wharton, "If another retailer opens a store, we figure the traffic and volume must be there, or they wouldn't have opened it.

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<sup>25</sup> Kotler, 575.

<sup>26</sup> Wharton.

Most important, though, it saves us the money we would've spent on conducting a study."<sup>27</sup>

Sue Dennis says that Target uses a Property Development Group based in Minneapolis, which conducts extensive studies on areas of the country Target considers favorable to conduct business. Although this group uses various forecasting tools and models, Dennis simplifies Target's methods of deciding where to place a store. Says Dennis, "Target basically feels it is necessary to compete in already proven markets. We're not intimidated by neighboring competitors. Anyway, Kmart is really hurting across the country, and Venture is going under. There's plenty of business out there for us to pull in."<sup>28</sup>

#### **2.4.2. Physical Distribution:**

Kmart and Target, like all major retailers, practice similar distribution operations (see Figure 2). The key element which sets one retailer apart from another is how quickly a purchased item can be replaced. All rely heavily on the passing of electronic data. Point of sale information is pulled from stores on a daily basis by their corporate headquarters.

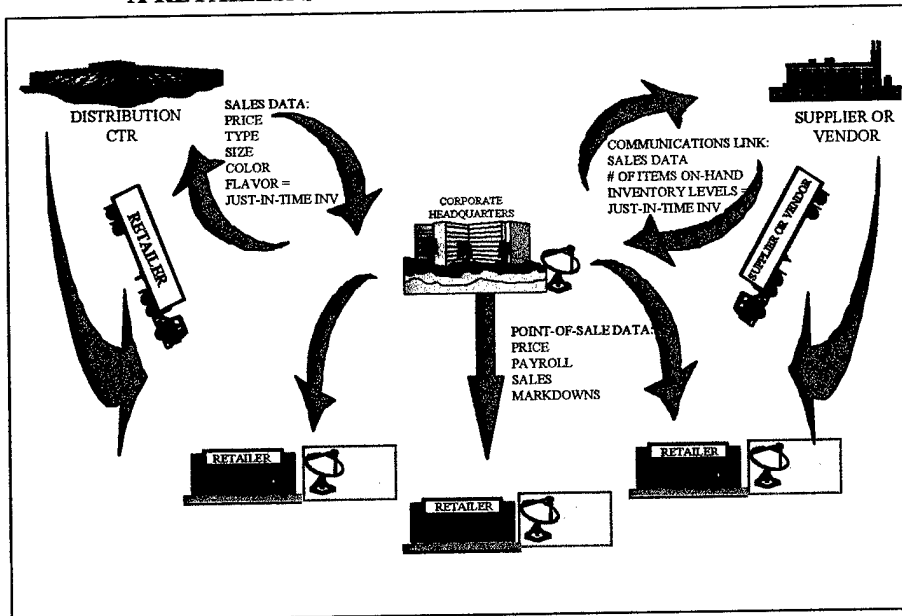
This sales data is analyzed to determine which items are selling well, and which items may need to be discounted to improve sales. Sales data then becomes replenishment information which is electronically passed to, or pulled from, one of the retailer's distribution centers or suppliers.

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<sup>27</sup> Ibid.

Figure 2.

**A RETAILER'S TYPICAL DISTRIBUTION OPERATION**



This information is electronically stored by the distribution center or supplier until the store's on hand supply reaches a level requiring replenishment. The retailer's distribution center or supplier then place the store's shortages on a truck, and dispatches the truck to the store where the shelves are restocked. The industry average for replenishment operations is twenty-four to forty-eight hours.

Today's retailers exercise a concept known as Just-in-Time (JIT) inventory. Basically, the premise behind this concept is for goods to arrive at a store almost immediately after purchase. As electronic sales information can be either queried or passed at approximate near real time, sales and replenishment can virtually take place simultaneously.



This practice enables retailers to keep less inventory on hand, thus savings are realized in inventory and storage costs. Another advantage is achieved in customer satisfaction as goods are readily available. Consequently, more responsibility is placed on distributors and suppliers who are now required to be much more responsive than in the past. Notwithstanding, as JIT becomes the distribution practice of choice, many retailers are placing the total replenishment burden on their suppliers to even include stocking the retailer's shelves. The common message of today's retailers to suppliers is that if a supplier wants to sell its products in a retailer's store, the product better be there before a customer has to ask for it.

#### **2.4.3. Pricing Policies**

Intense competition forces retailers to keep their prices very competitive on high-volume items common to most stores. Retailers are willing to make low profit on high-volume items because some of today's consumers are so price conscious, they are willing to overlook the convenience of buying at a store close by, to purchase goods at a store farther away in order to save a few little pennies. On the other hand, there are many consumers who will forfeit saving money to shop at a store close by. In order to attract both types of buyers, retailers try as closely as possible, to match their competitor's prices. The industry conducts a practice known as "comparable shopping." This entails discounters visiting each other's stores to adjust prices accordingly. This negates one store gaining a price advantage over another. Sue Dennis says that Target constantly reacts to what its competition is doing. She says

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that in order for Target to compete with Kmart, a member of Target's management team visits Kmart on a weekly basis to compare prices. Dennis says,

If Kmart is selling Kleenex for eighty-nine cents a box, we make sure that we are too. On the other hand, if they are selling a certain item for \$4.99, and we are selling the same thing for \$3.99, we mark it up to \$4.99. Kmart sends employees to check our prices as well. That is what keeps all of the discount retailers' prices in check.<sup>29</sup>

In addition, as noted earlier, Kmart and Target's brand name products lessen the threat of substitute sources.

#### **2.4.4. Customer Satisfaction:**

An interview conducted by Computerworld Magazine for its October 1997 issue reveals that no longer are money-back guarantees, and the promise to match competitor's prices good enough for consumers of the 1990s. It states that in order for merchants to compete and succeed in today's dog-eat-dog retail environment, they must understand customer wants before the customer asks, and have the product readily available before the customer arrives to purchase it. According to Business Professor Roger D. Blackwell, this endeavor falls squarely on the shoulders of a retailer's information technology (IT) employees. Says Blackwell, author of From Mind to Market: Reinventing the Retail Supply Chain, newly developed software allows retailers to manipulate their databases to uncover patterns of buyer behavior never accessible before. This practice, called "data mining," puts retailers in touch with their customers. Says Blackwell:

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<sup>29</sup> Ibid.

There is a function of IT in understanding the mind of the consumer, and that is transforming data...to build models of the future about how consumers are going to respond. Some of the people who handle data are like dogs watching TV. They just don't get it. The secret is focusing on the consumer market and the problems that need to be solved. If you understand the problems people have, than you can come up with new solutions. IT allows us to do on a much larger scale what good business leaders have always been able to do on an intuitive basis: listen to the consumer.<sup>30</sup>

Although an important aspect of customer service, some argue that just listening is not enough, and that swift action is the most paramount ingredient when it comes to satisfying customers. According to Karl Albrecht and Ron Zemke, authors of Service America!:

Of the customers who register a complaint, between 54% and 70% will do business again with the organization if their complaint is resolved. The figure goes up to a staggering 95% if the customer feels that the complaint was resolved quickly. Customers who have complained to an organization, and had their complaint satisfactorily resolved, tell an average of 5 people about the treatment they receive.<sup>31</sup>

Philip Kotler writes that it is more critical for retailers to retain the customers who have frequented their establishments in the past than attract new patrons. According to Kotler, satisfied customers are loyal customers who will not be as tempted to shift to a competitor's products as long as they are treated fairly. Another important payback of a good customer service program is that a customer who is happy with the treatment he or she receives will more than likely buy new or upgraded products when they are introduced.<sup>32</sup>

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<sup>30</sup> Randy Weston, "Reinventing the Supplychain, (Interview with marketing guru, business professor Roger D. Blackwell), Computerworld, 20 October 1997, 101.

<sup>31</sup> Kotler, 21.

<sup>32</sup> Ibid., 20.

A good example of consumer analysis conducted by retailers is brought to light in the book Strategic Management: Formulation, Implementation, and Control, written by John A. Pearce II, and Richard B. Robinson, Jr. In this text, they write that analysis conducted by Kmart Corporation in 1996 revealed that Wal-Mart's customers were on the average eleven years younger, and twenty-seven times more loyal. In addition, this analysis disclosed that thirty-six percent of Americans found Kmart's locations inconvenient. The most alarming revelation, however, was the discovery that forty-nine percent of Wal-Mart's customers have to drive past a Kmart to shop at Wal-Mart.<sup>33</sup>

Responding to this study, Ray Wharton says that Kmart understands the problem, and is working hard at turning things around. He explains that this is one of the major reasons the Sierra Vista Kmart is currently being remodeled. Because of slumping sales, his Kmart has added seven, 65 foot long aisles to his store so it can sell food items never sold before, such as dairy products and frozen foods. Wharton explained that Kmart is attempting to improve its customer base through renovation. Asked Wharton, "Did you know that the average Wal-Mart shopper shops at Wal-Mart on the average of thirty-two times a year? An average Kmart shopper only returns fourteen times. That's not good, and we're trying to fix it!"<sup>34</sup>

Target appeals to customers, not only because of its spotless stores and modern decor, but also because it offers innovative sales registry programs such as its

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<sup>33</sup> John A. Pearce II, and Richard B. Robinson, Jr., Strategic Management: Formulation, Implementation, and Control, 6<sup>th</sup> ed. (Chicago, Illinois, Irwin Publishers, 1997), 188.

<sup>34</sup> Wharton.

"Lullaby Club," and "Club Wed." The "Lullaby Club" is a new baby gift registry. A month or so prior to the baby's due date, the expecting mom is given an electronic scanner so she can scan the gifts she would like directly from the shelves. This "wish list" is electronically stored, then provided to hosts of the expecting mom's baby shower. "Club Wed" operates along the same principle for wedding gifts. In addition to providing a potential "wish list" for wedding guests, it offers a registry checklist of items already purchased by other members of the wedding party, a guest book, and tips on setting up house.

Target's manager proudly discussed the aesthetically pleasing appearance of Target Stores. She boasted that there is not a cleaner department store chain in the country. Says Dennis:

You'll never see cleaner, shinier floors anywhere, and the customers notice things like that. Not only are our stores exceptionally clean, but they're trendy. Our management is very serious about how our customers feel while they're shopping. Other than the cleanliness of the store, we survey our customers on how long they had to wait at any given department, how friendly our team members were to them, and whether or not they encountered a problem in finding the items they came for. If our upper management sees a problem in any of these areas in any of our stores, they're on us pretty quick.<sup>35</sup>

Dennis likened Target's philosophy of customer satisfaction to that of the restaurant business. She said,

It's actually pretty simple. In any given town you can go to similar restaurants and get similar food at similar prices. It's the service that counts. It's that way in the discount retail business as well. The customer will return to where they get better service. If someone goes

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<sup>35</sup> Dennis.

to a store and gets cruddy service, but comes to Target and gets great service, where do you think they're gonna go from then on?<sup>36</sup>

## 2.5. ASPECTS OF INTERNATIONAL BUSINESS

International expansion is becoming increasingly attractive to American businesses. Progression in transportation, thus logistics, and the evolution of computer technology is leaving its mark on how retailers operate in today's retail environment at home and abroad. Now, advances in technology are permitting retailers greater control over stores with greater distances between them. In addition, trade barriers around the world have become more relaxed, and as a result, more countries in Asia and Latin America are experimenting with free-market economies. Organizations such as the General Agreement on Tariffs and Trade (GATT), and the North American Free Trade Agreement (NAFTA), which are designed to gradually reduce tariffs and trade quotas on services and goods worldwide, are also enticing American businesses to expand globally.

Alluring as it may seem, an article in the September 1996 issue of the Economist states that many overly optimistic American retailers who have ventured into foreign markets with "an arsenal of high-tech inventory-management systems, famous brand names, and savvy marketing plans"<sup>37</sup> have seen their well-laid strategies crumble. According to the article, the main problem American retailers are having overseas is the assumption that transferring a successful strategy in one country will undoubtedly

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<sup>36</sup> Ibid.

<sup>37</sup> No author given, "The Lesson the Locals Learnt a Little Too Quickly," The Economist Archives, [http://www.Economist.com/archive/buy.cgi?filename=/economist/d4/economist-dev/fiparchive/fipfiles//1996\\_ou](http://www.Economist.com/archive/buy.cgi?filename=/economist/d4/economist-dev/fiparchive/fipfiles//1996_ou), Internet; accessed 3 March 1998.

work in another. Says John A. Pearce II, and Richard B. Robinson, Jr., authors of Strategic Management: Formulation, Implementation, and Control, transplanting an American business across international boundaries involves extensive study. Several factors need to be taken into account concerning practices in the United States compared to those on foreign soil:

<b>Factor</b>	<b>U.S. Operations</b>	<b>International Operations</b>
♦ Language	English used almost universally	Use of local language required in many situations
♦ Culture	Relatively homogeneous	Diverse – between countries and within countries
♦ Politics	Stable and relatively unimportant	Often volatile and of decisive importance
♦ Economy	Relatively uniform	Wide variations among countries and within regions
♦ Government Interference	Minimal and predictable	Extensive and unpredictable
♦ Labor	Skilled labor available	Skilled labor can be scarce, requiring training or redesign of production methods
♦ Financing	Well-developed financial markets	May be poorly developed financial markets; capital flow subject to government control
♦ Media Research	Data easy to collect	Data difficult and expensive to collect

♦ Advertising	Many media available; few restrictions	Media limited; many restrictions; low literacy rates rule out print media in some countries
♦ Currency	Dollar-based	May depend on widely fluctuating local rates of exchange
♦ Transportation/ Communication	Among the world's best	Can be inadequate and distances stretch systems to the logistical limits
♦ Control	Always a problem, but centralized control works	A worse problem - centralized control won't work; must walk a tightrope between overcentralizing and losing control through too much decentralizing.
♦ Contracts	Once signed, binding on both even if one makes a bad deal	Can be politically renegotiated if local party becomes dissatisfied
♦ Labor relations	Collective bargaining; layoff of workers easy	Workers may seek change through political process rather than collective bargaining. Layoff of workers often not possible

According to another article in the Economist titled "All the World's a Shop," transplanting an American business across international lines has additional potential requirements to include: heavy investment in time management, study in the host country's technological and logistical operations, marketing considerations to uncover the foreign consumer's likes and dislikes, and economic uncertainty due to changing currency rates in different countries. Another important factor to consider is that



international operations may take time to show profits. This may be difficult for many American firms to accept, as they expand overseas in an attempt to bolster their faltering growth in profits due to near saturation in the United States.

Regardless of the noted drawbacks, the article offers some insightful guidelines to businesses considering international penetration:

- ◆ **Decide on the Pace of Penetration:** Some U.S. firms study foreign markets for years before entering. Others execute a quick approach. According to the article, "A slow build-up gives less leverage with suppliers and real-estate developers, and means less customer awareness."<sup>38</sup> Nonetheless, many retailers feel safer penetrating foreign soil with "pilot investments...allowing fine-tuning before full-scale commitment."<sup>39</sup>

- ◆ **Consider Local Partners:** Joint ventures are considered the safest bet as domestic businesses come to understand the political and regulatory ins-and-outs of business abroad. In addition, locals can assist in choosing the right suppliers.

- ◆ **Develop Local Management:** The article points out that this may be the hardest obstacle to overcome. Corporate culture is not as easily transferable as many corporations believe. Local managers already understand their markets, and can share this knowledge with aspiring American entrants, thus saving valuable time, and potential embarrassment.

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<sup>38</sup> Michael Reid, "All the World's a Shop," The Economist, 4 March 1995, 16.

<sup>39</sup> Ibid.

◆ **Learn to Adapt to Local Conditions:** This includes being flexible enough to adapt to differing consumption levels in different countries. For example, something that sells extremely well in Asia may sell very poorly in another part of the world.

◆ **Stick to Core Skills:** New entrants must ensure that successful technological and logistical practices in the United State are compatible abroad. If communications and logistics do not function properly, retailers will face difficulties when it comes to convincing a host country that the retailer's reputation is based on quality and service.

## **CHAPTER 3 – ORGANIZATIONAL ANALYSIS**

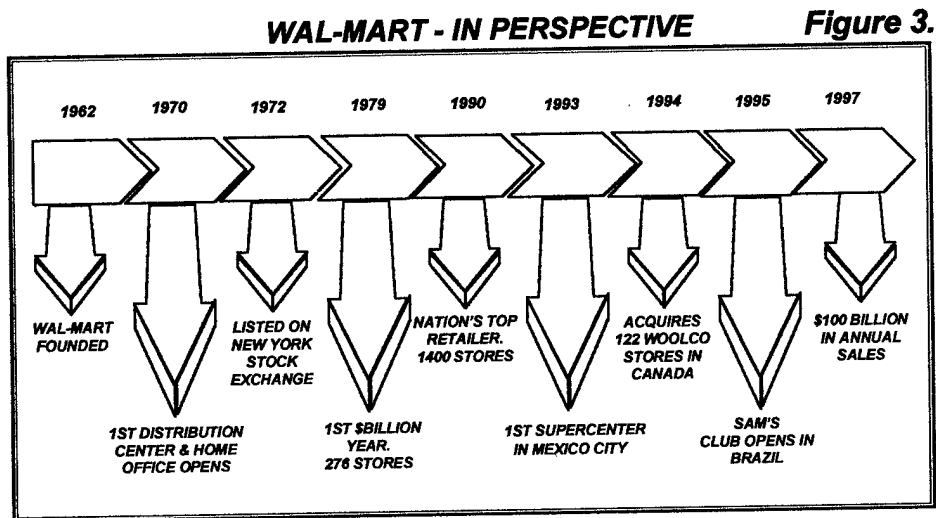
### **3.1. HISTORY OF WAL-MART CORPORATION:**

Sam Walton, the founding father of Wal-Mart, began his retailing career with J.C. Penney Company in 1940. After a five-year tour in the Army, he purchased a Ben Franklin variety store franchise in Newport, Arkansas in 1945. In 1950, after a disagreement on his lease with the owner of his store, he relocated to Bentonville, Arkansas. Between 1950 and 1960 Sam increased his initial franchise to fifteen units. In 1962, at a Ben Franklin board meeting, he proposed that Ben Franklin embrace the great opportunity he saw in the discounting business. Ben Franklin's leadership disagreed with Sam, so in that same year Sam and his brother opened a Discount City in Rogers, Arkansas.

Based on the success of their initial store, they opened a second store two years later in Bentonville, Arkansas. In 1969 Discount City was officially incorporated as Wal-Mart, and a year later, in 1970, Sam opened his first distribution center and Wal-Mart headquarters in Bentonville (see figure 3). Wal-Mart was listed on the New York Stock Exchange as WMT in 1972.

By the end of 1975 Walton had 104 stores with nearly 6000 employees and annual sales of \$236 million, which generated \$6 million net profit. The next year, the number of stores had increased to 125, employees to 7500, and sales to \$340 million, with \$11.5 million in profit. In 1985 Forbes magazine named Walton the richest man in America, and by the end of 1990, Wal-Mart was the nation's number

one retailer having surpassed Kmart. Wal-Mart's stores then numbered over 1400, and were located in 35 states.<sup>40</sup>



Today, Wal-Mart still stands on top as the world's largest and most influential retail operation, and appears to be on the fast track to overtaking General Motors, Ford and Exxon by the turn of the century to become America's largest company.

It currently employs over 700,000 people in close to 3,000 units across the country and overseas which average 100,000 square feet of retail space per store. It boasts the industry's most sophisticated distribution system and state-of-the-art information systems and networks. Currently, Wal-Mart is generating sales in excess of \$104 billion a year and net income of \$3.1 billion annually.<sup>41</sup> Wal-Mart's success

<sup>40</sup> Robert F. Hartley, Management Mistakes and Successes, 4th ed. (New York: John Wiley & Sons, Inc., 1994), 274.

<sup>41</sup> Seth Mendelson and Jay L. Johnson, "The Wal-Mart Era," Discount Merchandiser, July 1997, 25.

is evidenced by either a new Wal-Mart or Sam's Club Store opening almost every other day.

Fiscal 1997 end-of-year store counts totaled 1, 939 Wal-Mart Stores, 374 Supercenters, 441 Sam's Clubs in the U.S., and 145 Mexican units, 137 Canadian Wal-Mart stores, 11 Puerto Rican units, 6 Argentina units, 5 Brazilian units, 2 China stores, and 2 Indonesian Supercenters. Additionally, it boasts rapidly growing specialty divisions including 2,200 pharmacies, 650 Vision Centers, and One-hour-Photo-labs all of which all help boost tremendous sales.

Whether Wal-Mart can sustain its aggressive expansion and increasing sales figures has more than a few industry experts pondering. But then again who in 1950 could have predicted Sam Walton's early five-and-dime operation exploding to its current enormous proportions? Says Tony Stebbins, Senior Vice President for Market Development for the Newell Company, an Illinois-based full-service marketer of consumer products, "I see Wal-Mart continuing to grow because they continue to challenge both themselves and their suppliers. They want to be better. They are as hard on themselves as they are on their vendors. It's a very exciting atmosphere."<sup>42</sup>

### **3.1.1. MISSION:**

Wal-Mart is a national discount retailer offering a wide variety of general merchandise to the customer in 36 departments including family apparel, health and beauty aids, household needs, electronics, toys, fabrics and crafts, lawn and garden, jewelry and shoes. Many Wal-Marts offer a full-line grocery department, pharmacy, tire

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<sup>42</sup> Ibid., 32.

and lube express, garden center, snack bar or restaurant, vision center, and one-hour photo lab for customer shopping convenience.<sup>43</sup> Wal-Mart prides itself in exceptional customer service.

### 3.1.2. STRENGTHS:

Writes Tom Peters, co-author of In Search of Excellence, "With the possible exception of Henry Ford, Sam Walton is the entrepreneur of the century."<sup>44</sup> Writes Walton in his book Made in America:

I don't know that anybody else has ever done it quite like me: started out as a pure neophyte, learned his trade, swept the floor, kept the books, trimmed the windows, weighed the candy, rung the cash register, installed the fixtures, remodeled the stores, built an organization of this size and quality, and kept on doing it right up to the end because they enjoyed it so much. No one that I know of has done it that way.<sup>45</sup>

Walton's grass roots, building-block approach to erecting Wal-Mart from a corner five-and-dime to an empire began with this basic philosophy which is still in practice today:

We believe in the value of a dollar. We exist to provide value to our customers, which means that in addition to quality and service, we have to save them money. Every time Wal-Mart spends one dollar foolishly, it comes right out of our customer's pockets. Every time we save them a dollar, that puts us one more step ahead of the competition - which is always where we always plan to be.<sup>46</sup>

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<sup>43</sup> "Wal-Mart Corporate Info, The Retail Divisions," Wal-Mart Home Page; <http://www.wal-mart.com/stores/divisions.shtml#wmt>; Internet; accessed 15 July 1997.

<sup>44</sup> Sam Walton with John Huey, Made in America: My Story, (New York: Doubleday, 1982), 318.

<sup>45</sup> *Ibid.*, 320.

<sup>46</sup> *Ibid.*, 12.

“Sam phoned to tell me he was going to start a wholesale club. It was no surprise. He is notorious for looking at what everybody else does, taking the best of it, and then making it better.”<sup>47</sup> These words, spoken by Sol Price, founder of Fed-Mart and Price Club, sum-up Sam Walton’s philosophy on retail. He learned as much as he could, from as many retailers as he could, and incorporated what he learned into Wal-Mart’s operations on a daily basis. Writes Walton “If I wanted to reach the goals I set for myself, I had to get at it, and stay at it every day. I had to think about it all the time. And I guess what David Glass said about me is true: I had to get up every day with my mind set on improving something.”<sup>48</sup> Walton freely admits to his overriding ambition, and driving desire to always be “on the top of the heap.”<sup>49</sup> Today, Wal-Mart’s impressive track record as the leader of the discount retail industry, and a viable candidate for top honors as the nation’s largest company, demonstrates that Walton’s philosophy still lives on.

An additional strength that sets Wal-Mart apart from the competition is its closeness to the customer.<sup>50</sup> In his book Made in America: My Story, Sam Walton sums up his perspective on the criticality of a good relationship between his associates and the Wal-Mart customer:

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<sup>47</sup> Ibid., 241.

<sup>48</sup> Ibid., 320.

<sup>49</sup> Ibid.

<sup>50</sup> T. Peters, and Robert Waterman, In Search of Excellence (New York: Harper & Row), 1982.

Here it is - the way management treats the associates is exactly how the associates will then treat the customers. And if the associates treat the customers well, the customers will return again and again, and that is where the real profit in this business lies, not in trying to drag strangers into your stores for one-time purchases based on splashy sales or expensive advertising. Satisfied, loyal, repeat customers are at the heart of Wal-Mart's spectacular profit margins, and those customers are loyal to us because our associates treat them better than sales people in other stores do. So the whole Wal-Mart scheme of things, the most important contact ever made is between the associate in the store and the customer.<sup>51</sup>

One of Wal-Mart's 1997 glaring stellar successes is the generation of \$3 billion in free cash flow, and an increase on its return on assets. David Glass, Wal-Mart's CEO, writes, "With the growth in the Company's cash flow, we now can finance our aggressive capital expenditures program internally, and still have excess cash available for distribution to our shareholders."<sup>52</sup> In 1997 Wal-Mart reached \$100 billion in sales three years ahead of schedule. Glass attributes this unanticipated feat to Wal-Mart's dedicated associates, and the support of Wal-Mart's customers.

Wal-Mart certainly did not achieve its industry dominance by using second-rate information technology. Sam Walton realized early on that he needed state-of-the-art information systems, and qualified personnel to run it. In the early 1960's Walton studied the information technology of other industry leaders. Knowing that technology would be the cornerstone to his success, he teamed up with Sol and Robert Price of the Price Club and Harry Cunningham, founder of Kmart, to learn the technological secrets of their success.

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<sup>51</sup> Walton, 164.

<sup>52</sup> Wal-Mart Stores, Inc., 1997 Annual Report, 3.



One of Wal-Mart's mottos is "Our People Make the Difference," and Wal-Mart treats its associates as partners who share in the company's profits. Its practice of Productivity Improvements Through People encourages associates to make recommendations on increasing sales, or cutting costs, and motivates them to take personal pride in their positions, and the financial performance of their stores. If a sales-increasing or cost-reducing recommendation is considered worthy of dissemination, "multiply each suggestion by over 2,700 stores in the U.S and abroad, and 700,000 associates (who can potentially make suggestions), and this leads to substantial sales gains, cost reductions and improved productivity."<sup>53</sup>

Sam Walton believed that a key to Wal-Mart's success is to treat all people, whether customers, or associates, with fairness, honesty, genuine respect, and courtesy.

### **3.1.3. Weaknesses:**

Many of the weaknesses associated with the discount industry are intrinsically part of the game plan to cut down on overhead costs, resulting in consumer savings. As noted in Chapter One, these weaknesses, compared to traditional stores, include: lack of in-store and after purchase service, less ornate, yet more crowded shopping environments, less product expertise on the part of sales staffs, and lower quality products. It is important to note, however, that because consumers are free to shop where they choose, the weaknesses mentioned above are only perceived as

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<sup>53</sup> Vance H. Trimble, Sam Walton, founder of Wal-Mart, The Inside Story of America's Richest Man (New York: Signet Publishers, 1991), 144-5.

shortcomings by those who prefer to shop at traditional retail stores, but accepted as trade-offs for lower cost goods by those who favor discount stores.

Noted weaknesses aside, some familiar with the industry claim that, in its quest to maintain impressive profits and skyrocketing growth, Wal-Mart's concern for expansion is hurting customer loyalty.

A recent article in Forbes magazine titled "Can Wal-Mart Get Back the Magic?" states that Wal-Mart is in trouble because of its aggressiveness to build at a pace that is virtually unmanageable. This rapid rate of expansion is reported to be overshadowing Wal-Mart's focus on the customer. Michael Gade, of The Associates, a financial services firm in Dallas, comments:

Wal-Mart has the critical mass and great technology to win, but things are happening at the store level that I haven't seen before. I'm amazed to see greeters at the front door talking to other employees instead of to customers, and floors that aren't beautifully waxed as they were just a year ago. Each time I walk in I think, "Boy, this is getting closer to Kmart everyday."<sup>54</sup>

Another weakness associated with Wal-Mart Corporation is the perception of its use of strong arm tactics. At one time Wal-Mart was welcomed by small-town residents with open arms, and seen as "signs of the times" in terms of revitalization and modernization. However, more recently, Wal-Mart has been the target of controversy, and its position in small-town America is being scorned by some potential recipients who have nicknamed Wal-Mart "Sprawl-Mart." Wal-Mart has gained the reputation for unnecessarily penetrating local economies just to put

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<sup>54</sup> Patricia Sellers and Suzanne Barlyn, "Can Wal-Mart Get Back the Magic?" Fortune, 29 April 1996; available from <http://pathfinder.com/@@trcqya2ewm1oij/fortune/magazine/1996/960429/magic.html>; Internet; accessed 1 August 1997.

pressure on small business owners. Once these “mom and pop” stores have collapsed, Wal-Mart is accused of closing redundant stores while leaving one or two open. In order to prevent the competition from moving back into its vacated stores, Wal-Mart leaves restrictions on the sale or lease of the existing, vacant buildings which prevent other retailers from occupying that space.

#### **3.1.4. Opportunities:**

Despite Wal-Mart’s impressive number one ranking in a very competitive industry, and illustrative of Wal-Mart’s hawkish attitude, CEO Glass opines, “There is still plenty of room left to grow. In the United States, Wal-Mart holds only 7% of a \$1.4 trillion retail market. That leaves tremendous opportunity for future growth.”<sup>55</sup>

Since 1988 Wal-Mart has opened an average of 211 stores per year including domestic and international units, Supercenters, and Sam’s Clubs. But not representative of its yearly success, annual net sales have dropped from 34 percent ten years ago to 12 percent in 1997 (see Figure 4).

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<sup>55</sup> Wal-Mart Stores, Inc., 1997 Annual Report, 3.

**10-YEAR NET SALES AND STORE GROWTH DATA     Figure 4.**

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
<b>NET SALES INCREASE</b>	<b>12%</b>	<b>13%</b>	<b>22%</b>	<b>21%</b>	<b>26%</b>	<b>35%</b>	<b>26%</b>	<b>25%</b>	<b>29%</b>	<b>34%</b>
<b>NUMBER OF DOMESTIC WAL-MART STORES</b>	<b>1,960</b>	<b>1,995</b>	<b>1,985</b>	<b>1,950</b>	<b>1,848</b>	<b>1,714</b>	<b>1,568</b>	<b>1,399</b>	<b>1,259</b>	<b>1,114</b>
<b>NUMBER OF DOMESTIC SUPERCENTERS</b>	<b>344</b>	<b>239</b>	<b>147</b>	<b>72</b>	<b>34</b>	<b>10</b>	<b>9</b>	<b>6</b>	<b>3</b>	<b>2</b>
<b>NUMBER OF DOMESTIC SAM'S CLUBS</b>	<b>436</b>	<b>433</b>	<b>426</b>	<b>417</b>	<b>256</b>	<b>208</b>	<b>148</b>	<b>123</b>	<b>105</b>	<b>84</b>
<b>INTERNATIONAL UNITS</b>	<b>314</b>	<b>276</b>	<b>226</b>	<b>24</b>	<b>10</b>					

Nonetheless, Wal-Mart recently broke the \$100 billion mark in sales. While many in the retail industry do not question Wal-Mart's die-hard aggressiveness and impressive sales history, others find it difficult to imagine Wal-Mart's continued posting of such staggering sales figures. One of Wal-Mart's biggest problems is that it must continue to live up to its yearly sales performance which is not an easy undertaking.

Glass feels the answer to keeping Wal-Mart on top is to aggressively diversify into the food retailing business by saturating the country with his "Supercenters" which combine a supermarket and a general merchandise store under one gigantic roof. Glass bases this strategy on the fact that the grocery industry is three times larger than the discount retail industry, and unlike the discount retail industry where Wal-Mart joins Kmart and Target as one of the three leaders who together own approximately 80% of the market, the top five grocers only share 25% of the grocery market. Says John Menzer, "We certainly have a tremendous opportunity to gain

market share in the food industry and grow domestically.”<sup>56</sup> Wal-Mart’s most successful venture to date has been its entry into the grocery business. By expanding the square footage of the retail space in existing Wal-Marts, and adding grocery stores, Wal-Mart has been able generate impressive profits, while its customers still save on Wal-Mart’s lower prices on groceries and discount items. Now, not only do Supercenter shoppers save money, they save the time associated with having to make multiple stops to pick up all of the items they can now purchase under one roof at a Wal-Mart Supercenter.

Wal-Mart’s confidence in its Supercenter’s ability to maintain its future profitability is evidenced by Glass’s ambitious plans to open up to 300 a year over the next few years. Says Glass, “I believe Supercenters will be to the next decade what discount stores were to the last, and that means Wal-Mart will continue to be a better company with each passing year.”<sup>57</sup> Analysts label this a risky bet for two reasons. First, they claim that selling food is a lot less profitable than selling sports gear and clothing items. Second, competition among grocers is fierce. Glass is not scared by the analysts though, and has recently invested approximately \$7 billion to buy land on which he will erect high-tech food distribution centers.

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<sup>56</sup> Ibid., 35.

### 3.1.5. Threats:

Wal-Mart does not see another discount retailer encroaching on its long-standing position as the nation's number one retailer, nor its recent annual posting of \$1 billion in sales. Nonetheless, Wal-Mart must remain ever alert to other retail success stories in the making. Approximately one month before his death, Sam Walton addressed this very issue on the last page of his autobiography. He recounts being repeatedly asked if the possibility existed of another Wal-Mart-like success story occurring in today's environment. Walton writes:

My answer is of course it could happen again. Somewhere out there right now there's 'someone' - probably hundreds of thousands of someone's - with good enough ideas to go all the way. It will be done again, over and over, providing that someone wants it badly enough to do what it takes to get there. It's all a matter of attitude and the capacity to constantly study and question the management of the business.<sup>58</sup>

As well as a noted weakness, Wal-Mart's ever-growing perception of using "strong arm" tactics to move into small-town America, and force the home-town retailer out of business is a threat as well. Regardless, Walton makes no apologies for his expansion and resulting impact on local economies, "What happened was absolutely a necessary and inevitable evolution in retailing, as inevitable as the replacement of the buggy by the car and the disappearance of the buggy whipmakers. The small stores were just destined to disappear, at least in the numbers they once

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<sup>57</sup> Ibid., 19.

<sup>58</sup> Walton, 326.

existed, because the whole thing is driven by the customers, who are free to shop where they choose.<sup>59</sup>

Not all small store owners are threatened by an encroaching Wal-Mart. In fact, some owners feed off of Wal-Mart's lack of expertise in certain areas. Walton admitted that he offered little competition to the local hardware store owner and claimed that this is one of the stores for which he had little sympathy because "a good, smart hardware store operator can just beat us to death if he just thinks about what he's doing and commits to putting up a fight. If he gets his assortment right and makes sure his sales people have excellent knowledge of the products and how to use them, and goes out of his way to take care of his customers, he can keep plenty of business away from us. Not all of our folks can explain how to fix a leaky faucet or rewire a lamp the way folks in a hardware store should be able to"<sup>60</sup> Walton also admits to Wal-Mart's lack of expertise in other retail areas to include sporting goods and women's apparel. He goes on to say that stores specializing in these two areas seldom experience the pressure of Wal-Mart's competition.

Berlin Myers, Jr., owner of a building supply center which is thriving against the stiffest competition it has had in its fifty-five year history, does not feel threatened by super stores like Wal-Mart. Myers, finding a positive aspect in being closely located to a Wal-Mart, states "In spite of what they say, they can't be all things to all people. Consequently, there are people who walk out of that store without having

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<sup>59</sup> Ibid., 179.

<sup>60</sup> Ibid., 181.

their needs satisfied...we're in a position to service that business. They're only as much a threat as I allow them to be."<sup>61</sup>

Robert Gondek, president of Casey's, a family-owned hardware store one mile from a Wal-Mart, would rather fight the Wal-Mart invasion rather than fold to the pressure they create. Gondek incorporates a small town touch to keep his customers satisfied, "If Wal-Mart is 97 cents on a bag of steer manure, we'll be at 99 cents, but we'll load it in your car for you."<sup>62</sup>

A haunting threat that Wal-Mart needs to be always conscious of is its practice of business ethics in relation to antitrust laws. Although it has eventually won the majority of cases brought against it by small business owners, Wal-Mart has been called before judges on numerous occasions. Accused of tinkering on the edge of unfair business practice as described in the Clayton Act of 1914, Wal-Mart has been accused by small business owners of purposely setting its prices lower than theirs to force them out of business. The Clayton Act states that "it is illegal for any corporation to discriminate in price between different purchasers or commodities of like grade and quality...where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly."<sup>63</sup> The Robinson-Patman Act of 1936, amended the Clayton Act by broadening the scope of price discrimination "where the effect...may be substantially to lessen or tend to create a monopoly...or

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<sup>61</sup> Don Taylor and Jeanne Smalling Archer, Up Against the Wal-Marts, (McGraw Hill Publishers, 1994)

<sup>62</sup> Ibid.

<sup>63</sup> Walter W. Manley II and William A. Shrode, Critical Issues in Business Conduct, (New York: Quorum Books, Inc., 1990), 262.



injure, destroy, or prevent competition. Therefore, the Robinson-Patman Act, embellished the Clayton Act by providing that a firm's actions no longer had to lessen competition to be illegal, but a firm's actions could be deemed unlawful if it merely injured competition.<sup>64</sup>

One case Wal-Mart did not win occurred in October of 1993 when it lost a highly publicized court case in Conway, Arkansas where it was ordered by an Arkansas judge to stop selling health and beauty aids below cost. Wal-Mart was ordered to pay three local pharmacies a total of \$288,000 in damages. The judge charged that Wal-Mart had crossed the line and violated Arkansas' 56-year old Unfair Practices Law by cutting prices with the intent to drive the local pharmacies out of business. Judge David Reynolds gave the following reasons for backing the plaintiffs:

- ◆ The frequency and large number of Wal-Mart's below-cost sales.
- ◆ Wal-Mart's stated policy to "meet or beat the competition without regard to cost."
- ◆ The intention of Wal-Mart's below-cost sales "to attract a disproportionate number of customers to Wal-Mart."
- ◆ Wal-Mart's practice of displaying other store's higher prices next to merchandise in its stores.

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<sup>64</sup> Ibid., 264.

◆ The big price discrepancy between Wal-Mart's Conway prices and Wal-Mart prices in other towns.<sup>65</sup>

An article written by Albert Norman titled "Eight Ways to Beat Wal-Mart" offers some fundamental actions to others experiencing a Wal-Mart encroaching their small community. Norman, a victor from a recent campaign to keep Wal-Mart out of his hometown of Greenfield, Massachusetts, claims he has received dozens of letters from communities like East Aurora, New York; Palatine, Illinois; Mountville, Pennsylvania; Williston, Vermont; and Bradford, Connecticut. Norman's outline includes the following defensive measures:<sup>66</sup>

◆ Quote "scripture:" In his book Walton states "We have almost adopted the position that if some community, for whatever reason, doesn't want us in there, we aren't interested in going in there and creating a fuss."<sup>67</sup>

◆ Learn "Wal-Math:" In Greenfield, Norton's company agreed to pay for an impact study which yielded enough negative data to "kill three Wal-Marts." This study showed that, with the exception of one high school scholarship annually, Wal-Mart gave back very little to the community.

◆ Take advantage of Wal-Mart's mistakes: In the case of Greenfield, Wal-Mart tried to muscle its way onto industrially zoned land. Greenfield's town council granted Wal-Mart's request for rezoning the land from industrial to

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<sup>65</sup> Ellen Neuborne, "The Retail Giant's Loss May Hurt Consumers," USA Today, 13 October 1993, B-1.

<sup>66</sup> "Eight Ways to Beat Wal-Mart," <http://www.hookup.net/%7eclaytons/walmart.html>; Internet; accessed 10 September 1996.

<sup>67</sup> Walton, 233.

commercial, but Greenfield's town charter afforded voters the right to seek reconsideration of the town council's decision, which they did, and ultimately won a referendum. In this case, the public won.

- ◆ **Fight money with money:** Although Wal-Mart invested over \$30,000 in its attempt to sway the outcome of the referendum. Greenfield, with its population of 20,000, raised almost \$17,000 to block Wal-Mart, nearly half of which came from local businesses.

- ◆ **Beat them at the grass roots level:** Wal-Mart hires professionals from public relations and telemarketing firms, but can not compete when it comes to garnering public support in the form of spreading leaflets all over town, writing hundreds of letters to the editor of the local newspaper, or organizing press conferences.<sup>68</sup>

- ◆ **Be persistent with those with the right to vote:** The citizens group of those opposed to Wal-Mart in Greenfield hired a local telemarketing company to discover those residents opposed to Wal-Mart setting up shop. Those individuals were called shortly before the election and reminded to cast their votes. If they did not show at the polls, as noted by anti-Wal-Mart poll watchers in nine different precincts, they were telephoned and told to get up from the dinner table and help stop the "infiltration" of the store.

- ◆ **Solicit professional help:** Wal-Mart uses promotional "hired guns," so should anti-Wal-Mart forces. According to Norton, those fighting Wal-Mart can not

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<sup>68</sup> "Eight Ways to Beat Wal-Mart."

use small-time tactics. He stresses that most small towns have political activists nearby who will volunteer their experience in developing a media campaign, and who also understand how to collect the hundreds, if not thousands, of phone numbers and signatures needed to conduct a successful crusade.

♦ Educate those who will possibly be affected: The citizens of Greenfield were educated through the use of bar charts and graphs detailing the potential job loss associated with a Wal-Mart moving into a small community.

In a nutshell, Norton's message to community coalitions waging war against Wal-Mart is "Organize early, bring your case directly to the public, and trumpet the downside of megastore development."<sup>69</sup> There's a good chance, he says, that the "Wals" will come tumbling down.

### **3.2. INFORMATION RESOURCES MANAGEMENT:**

Sam Walton, considered a visionary, admitted that trying to get a handle on how to distribute merchandise to a growing number of stores in remote locations was an early concern. He recounts walking through the warehouse in Bentonville, Arkansas firing off questions to employees - "Where does this go?," "Who bought this?," "We've got too much of that!"<sup>70</sup> Walton realized he needed to automate his business in order to deliver the merchandise his

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<sup>69</sup> Ibid.

<sup>70</sup> Walton, 155

store managers were screaming for. In the early 1960's Walton studied the information technology of other leading industries.

Today, with technological achievements almost outpacing the Retail Industry's ability to capitalize on them, Wal-Mart maintains the leading edge in technological developments. Wal-Mart's competitive advantage in relation to its use of information technology is the envy of the rest of the discount retail industry, and has them playing catch-up on a continual basis. This section will discuss how Wal-Mart Corporation is applying this technology.

Wal-Mart's Information Systems Division is a strategic corporate resource with the following prestigious awards to its credit: The UNIX Award for Business Commitment and Contribution to the UNIX Industry (1993), CIO magazine's 100 Award for Best Practices in Supply Chain/Logistics (1995), and Computer World magazine's Smithsonian Award finalist (1995). In addition, Wal-Mart is a four-year Award Winner of Computer World Premier 100, and a four-year winner of the Information Week 500 Award.<sup>71</sup>

### **3.2.1. Point of Sale (POS) Software:**

In the early 1980's, Wal-Mart invested over half a billion dollars to boost its computer and satellite network systems. They added barcode systems, scanners and other near-real-time technology to link cash registers in every store into one unified link. From the instant a sales transaction takes place, data simultaneously flows back and

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<sup>71</sup> Wal-Mart Corporate Information, "Information Systems Careers," <http://www.wal-mart.com/cgi-bin/htmldisp?ci:3>; Internet; accessed 15 August 1997.

forth from stores world-wide to Wal-Mart's distribution centers, its headquarters in Bentonville, Arkansas, and to Wal-Mart's suppliers in a continuous, informative loop.

Software automatically tells Wal-Mart which items to reorder, or which items need to be discounted because they are not moving. Using this technology to consolidate and share its sales information ultimately results in Wal-Mart's customers getting lower-cost goods due to lower inventory costs, and increased satisfaction by ensuring that shelves are fully stocked with products customers want. Additionally, because of Wal-Mart's lower back room inventory, its stores average 15% more floor space for sales than the rest of the industry.

In addition to offering Wal-Mart an environment that monitors and shares its current inventory trends with external vendors, this technology, through a sophisticated network which bridges individual stores, identifies the most efficient way to manage the distribution of its products internally.

Jim Royal, the manager of the Wal-Mart store in Sierra Vista, Arizona explained how a recently purchased candy bar is replaced. Royal explained that the cashier register itself is the most important piece of equipment in the store when it comes to the reordering of stock, as it has become Wal-Mart's main reordering tool. Until recently, department managers used to reorder stock manually every night. Now, the department manager factors into replenishment only when seasonal items come into play. For example, during flu season the manager of the pharmacy may need to order more flu medicine than the prior year. This information gathering on the part of Wal-Mart's corporate headquarters actually takes a great managerial burden off

the shoulders of individual and collective store managers. Royal explained he is now able to focus his efforts and skills on other areas of store management.

Royal explained the criticality of his cashier's accuracy when it comes to scanning merchandise purchased. For example, if a customer brings five evenly-priced, but different brands of candy bars to a cashier: a Snickers bar, a Mr Goodbar, a Hershey's bar, a Nestles Crunch bar, and a Three Musketeers bar, and the cashier scans the Snickers bar five times to capture the cost, the data collected is inaccurate. This point of sale data, will reflect the sale of five Snickers bars, and that store will end up with four surplus Snickers bars, but deficit stockage on the other four brands.

To illustrate the use of retrieved sales data, Jim Royal explained how this works for the Sierra Vista Store. The data pulled by Bentonville identifies which product was purchased, and automatically notifies the applicable vendor, or a distribution center either in Plainview, Texas (410 miles away), or Porterville, California (420 miles away). Because these distribution centers fit Sam Walton's grand design of being within a day's drive of a store, the shelves in the Sierra Vista Wal-Mart will be replenished within twenty-four hours or less, or as long as forty-eight hours depending on the criticality of the item shortage.

Perhaps the most cutting-edge example of the use of point-of-sale data is a practice Wal-Mart is currently testing. Wal-Mart and McDonalds restaurants have been partners since 1993, and McDonalds restaurants are currently housed within over seven hundred Wal-Mart stores. To encourage hungry shoppers, Wal-Mart is currently displaying place-mat-type McDonalds menus at their check out counters. Illustrative of the strength of this partnership, Wal-Mart check-out clerks are now

using Wal-Mart's cash registers to capture and pass a customer's food purchases, via jointly developed software, to the McDonalds' kitchen. A McDonalds employee then delivers the order to the customers as they exit the store.

A noted benefit to this new practice is that customers paying for their Wal-Mart purchases with a credit card can now purchase McDonalds food using the same electronic transaction. At day's end Wal-Mart and McDonalds electronically sort the sales data and bank their respective results.

In an article in Datamation Magazine entitled "The New ROI in Point of Sale" Ross Telford, Vice President of Retail Practice at National Cash Register states, "It's an inevitable process, folks are going to start using one another's environments and one another's skills."<sup>72</sup>

### **3.2.2. Client/Server Systems:**

Wal-Mart is in the forefront of inventory management and supplier relations. They're very good at opening their vendors to make the supply chain more efficient.<sup>73</sup>

Jeff Stiely  
Consumer Products Analyst

A good example of Sam Walton's early understanding of the importance of technology is still alive at Wal-Mart in its current development and use of an automated distribution system known as the 'Retail Link.' This system shares sales information with Wal-Mart suppliers - a practice unheard of until recently in the retail industry - to

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<sup>72</sup> Frank, 74.

<sup>73</sup> Thomas Hoffman, "Green-light Special: IS Reviving Kmart," Computerworld, December 16, 1996, p.



ensure customers always find the shelves well stocked at their local Wal-Mart store. Retail Link allows Wal-Mart suppliers to dial-up and retrieve the history of important sales data from the last 56-week's worth of sales. Over 4,000 of Wal-Mart's suppliers access this service averaging approximately 10,000 queries a day. Says James Martin, author of Cybercorp: the New Business Revolution, "The true advantage does not lie in cost savings...but in interlinking businesses so they can help each other better...an enterprise no longer battles its suppliers; it joins forces with them to bring products to market faster to achieve other mutual advantages."<sup>74</sup> Because of this system, Wal-Mart boasts the industry's most efficient and sophisticated automated distribution system, as products and inventory are based on the sales patterns of the local populace where each store is located. In addition, and more important to supplying this information to Wal-Mart's suppliers, this networking tool provides store management from Houston to Hong Kong, simultaneous information on exactly what is selling. In some cases, Wal-Mart suppliers have taken on the entire replenishment function thanks to this system. Through a continuous loop process, they are bypassing Wal-Mart distribution centers altogether and shipping goods directly to each store. The only thing Wal-Mart associates have to do is check the goods off as they arrive from the vendor.<sup>75</sup> An incident in 1995 clearly illustrates the value of this system. In preparation for the Memorial Day weekend, the national accounts manager for Clorox Company, who manufactures Kingsford Charcoal, was monitoring Wal-Mart's Retail Link when he

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<sup>74</sup> Charles B. Darling and J. William Semich, "Wal-Mart's IT Secret," Datamation, November 1996, 49-58.

<sup>75</sup> Richard Halverson, "Retooling Retailing via Information Technology," Discount Store News, 15 May 1995, v34, n10, p73.

noticed a severe shortage of charcoal on-hand at Wal-Mart's stores and warehouses across the country. With this information, Clorox Company dispatched trucks to build inventory levels for the holiday. This sharing of information saved Clorox Company an estimated \$200,000 in sales, not to mention many potentially unhappy customers.

An article in Wal-Mart's 1997 Annual Report discusses Wal-Mart's use of a new technology they refer to as "magic wands." This hand-held computer helps Wal-Mart's associates keep track of approximately 70,000 standard items in a typical Wal-Mart store, and over 90,000 items in a Wal-Mart Supercenter. This computer, linked by a radio frequency network to in-store terminals, gives every Wal-Mart worker a "window" as to what is on-hand, on order, in-transit, or sitting at a Wal-Mart Distribution Center. These hand-helds also give the Wal-Mart employee the description of the item, the cost of the item, can print an item label or price tag, and also permits a department manager to place an order manually. Says Randy Mott, Wal-Mart's Chief Information Officer, "With this technology, we're getting better, quicker, and more accurate information to manage and control every aspect of our business. Our technology helps us buy the right merchandise, at the right time, and have it in the right place at the right time."<sup>76</sup>

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<sup>76</sup> Wal-Mart Stores, Inc. 1997 Annual Report (Bentonville, AR: Wal-Mart Stores, Inc., 1997), 13.

### 3.2.3. Decision Support Software:

An article in a February 1997 issue of Computer World discusses Wal-Mart's plans to triple the size of its current data warehouse to 24-terabytes in an effort to capture customer buying habits and trends. Wal-Mart believes this data, known as "market basket" data, will help in its placement of like-selling products, as well as aid in the design of its floorspace in certain locations. For example, this data has helped Wal-Mart discover that a customer who buys a Barbie doll will also purchase one of three types of candy bars. Therefore, Wal-Mart has begun placing bins of candy in the main isles outside of the toy department, versus just next to the checkout counter. Furthermore, based on the buying habits of customers in certain regions, this data allows Wal-Mart to determine if the square footage in certain departments needs to be expanded or made smaller.

John Menzer, Wal-Mart's Chief Financial Officer, further explains:

We isolated one week of transactions. That may not seem like a lot, but that's 65 million transactions. We are actually finding out what was in each shopping cart. If someone bought a certain item, what else did they buy? Were there complimentary items? Where did the customer walk in the store? We are also doing a study tracking profit-and-loss by shopping cart. Through this microresearch, we continue to fine-tune our stores specifically for our customers. I think it gives us a great strategic advantage.<sup>77</sup>

Walton's investment in technology has generously paid off as sales steadily increase, and Wal-Mart saves over twenty five percent in inventory spending. Today, with more and more retailers becoming Chapter 11 casualties, Wal-Mart's use of technology helps ensure it has less to fear.

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<sup>77</sup> Mendelson and Johnson, 32.

### 3.3. MANAGEMENT OF STRATEGIC ISSUES:

Sam Walton's views were not top-driven in nature, but shared with all of Wal-Mart's associates. The parallel between the writings by Sam Walton on his operational views and how well they are still maintained at the local level are striking.

#### 3.3.1. Threat of Entry:

Since Sam Walton's days as CEO of Wal-Mart, it has never felt threatened by its competition. Writes Walton:

Our competitors are doing a better job of serving their customers, of getting them through the checkout lines. They're running cleaner stores with better merchandise presentations. They're making our job a lot harder. But so far none of our competitors has yet been able to operate on the volume that we do. They haven't been able to get their expense structure as low and haven't been able to move their merchandise as efficiently, or keep it in stock as efficiently as we do. If anyone is ever able to top us in any of those areas, we will have real concern. At this point, no one has been able to.<sup>78</sup>

This low threat of entry still exists today. Says Jim Royal, "There are finite retail dollars within a given area. Wal-Mart's customers are loyal because of our everyday low prices. Other retailers clearly know that if they want to open a store in the vicinity of a Wal-Mart their work is cut out for them. In any given community where there's a Wal-Mart you can bet that Wal-Mart has the greatest market share of the retail trade."<sup>79</sup>

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<sup>78</sup> Walton, 261.

<sup>79</sup> Jim Royal, Manager, Wal-Mart, Sierra Vista, Arizona, interview by author, 20 February 1998, Sierra Vista, Arizona, author's notes.

### 3.3.2. Intensity of Rivalry:

On rivalry Walton writes:

This is a highly competitive business, and an even more competitive company. It naturally attracts a lot of ambitious people, sometimes with egos to match. Competition is actually the reason I love retailing so much. The Wal-Mart story is just another chapter in that history of competition – a great chapter, mind you – but it's all part of the evolution of the industry. There's always a challenger coming along. There may be one on the street right now formulating a plan to get to the top. To stay ahead of those challengers, we have to keep changing and looking back over our shoulder and planning ahead.<sup>80</sup>

Royal likened this intensity to a large family at dinner time. He reasoned, "Say you've got nine brothers and sisters who have just finished dinner and dessert is being served, don't you think those brothers and sisters are trying to decide who is going to get the biggest piece? It's really no different in the retail industry. Wal-Mart naturally wants the biggest slice of a community's retail dollars."<sup>81</sup> Concluded Royal, "It's this simple, our goal is to be number one. If another store wants to mix it up we're up to the challenge."<sup>82</sup>

### 3.3.3. Threat of Substitutes:

Royal revealed that Wal-Mart focuses on selling nationally recognized brand name items, therefore, the threat of substitutes sources is low. Strengthening this argument is the fact that many of the products produced exclusively for Wal-Mart under

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<sup>80</sup> Walton, 260.

<sup>81</sup> Ibid.

<sup>82</sup> Ibid.

the "Sam's Choice" label have become so popular with consumers they are now considered nationally recognized as well. Royal said that Wal-Mart's "Old Roy" dog food is currently the number one best selling dog food in America, outselling brands like Purina, Science Diet, and Kenelration, and "Sam's" cola is third behind soft drink giants Pepsi and Coca Cola. Royal explained that even if Wal-Mart did not produce and sell its own brand named goods, it sells the best selling nationally recognized brands cheaper than its competition regardless, thus strengthening his argument that the threat of substitute sources and products is minimal.

#### **3.3.4. Bargaining Power of Buyers and Suppliers:**

Royal agrees with the other managers interviewed that buyers have significant power. He said that Wal-Mart's rock-bottom prices have created a very loyal customer following. He likened Wal-Mart's popularity to that of McDonalds restaurants. Says Royal:

When someone thinks of hamburgers they think of McDonalds. When someone thinks of discount retail they think of Wal-Mart. Although someone wanting a hamburger can go Burger King or Jack-in-the-Box, statistics show that most go to McDonalds though the choice still exists. The same philosophy applies to Wal-Mart. Most shoppers have the choice of shopping at Kmart or Target, but most shop at Wal-Mart.<sup>83</sup>

Perhaps the most interesting perspective on this issue came to light when Mr. Royal said, "Listen, retailers are nothing more than distributors of merchandise from a manufacturer to a customer. Shoppers can shop wherever they want, but most shop

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<sup>83</sup> Ibid.

where they can find the selection they want at affordable prices. That's Wal-Mart.

We don't dictate to customers their likes."<sup>84</sup>

Sam Walton insisted on initiating the ground-breaking practice of sharing Wal-Mart's sales information with its suppliers. This sharing of information allowed suppliers to monitor how well Wal-Mart was moving their products, therefore, they were now able to plan their own production and shipping plans more efficiently. This streamlining afforded suppliers the opportunity to lower their costs, and Wal-Mart, because it could now purchase goods cheaper, passed these savings on to their customers. Writes Walton, "One thing we didn't ever want to do, was let all those complex strategic issues between us and other big companies get in the way of our thinking like customers, which may be the most basic way in which we make the customer number one."<sup>85</sup>

Not surprisingly, Royal echoed these sentiments. He said that of utmost importance concerning this issue is not whether or not a supplier has power over the retailer or vice versa, but the forming of a partnership between the retailer and supplier for the benefit of the customer. Says Royal,

If an item is repeatedly out of stock, then something drastic might have to happen, but more times than not we try to work out problems with our suppliers if there is one. Suppliers are pretty responsive. When you think about it, they need our business, and we need theirs to satisfy our customer's needs. It's best to work together.<sup>86</sup>

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<sup>84</sup> Ibid.

<sup>85</sup> Walton, 239.

<sup>86</sup> Royal.

### 3.4. CONCEPTS IN MARKETING

#### 3.4.1. Identification of Target Markets:

Unlike Kmart and Target, who entered the retail industry to compete with stores of similar size and pricing ideologies, Wal-Mart has received much criticism for its targeting of the small-town business owner.

When Sam Walton began his dream of expanding his home-spun outfit, he did so with small-town values in mind, but realized the potential for expansion. He knew that small-town America was virtually untapped by major competitors, and admits to Wal-Mart's huge growth as part of his original plan:

In his book, Made in America, Walton discusses his strategy to capitalize on this window of opportunity.

We knew our formula was working even in towns out there smaller than 5,000 people, and there were plenty of those towns out there for us to expand into. When people want to simplify the Wal-Mart story, that's usually how they sum up the secret to our success: "Oh, they went into small towns when nobody else would." And a long time ago, when we were first being noticed, a lot of folks in the industry wrote us off as a bunch of country hicks who had stumbled onto this idea by big accident.<sup>87</sup>

Walton discussed his method of implementation which was to saturate a market area by "spreading out and then filling in." "Our growth strategy was born out of necessity," says Walton. He admits to filling in the map of a territory, state by state, county seat by county seat, until he had saturated the market area.<sup>88</sup>

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<sup>87</sup> Walton, 109.

<sup>88</sup> Ibid., 141.



At one time Wal-Mart was welcomed by small-town residents with open arms, and seen as "signs of the time" in terms of revitalization and modernization. However, over the past few years, Wal-Mart has been the target of much controversy, and its position in small-town America is being scorned by many potential recipients who have nicknamed Wal-Mart "Sprawl-Mart." It is alleged to target areas which it knowingly can out-compete; the small-town vendor who can not possibly sell their inventory at a price at which Wal-Mart can unload its mega-stock. Wal-Mart has been blamed repeatedly for strategically setting its prices lower than local competitors, often below cost, and holding them there until the local retail competition is driven out of business.

Jack Deal, a small business consultant, writes that it is not Wal-Mart's strategy against the small business owner which has catapulted it to the top of the discount retail scale, Wal-Mart's claim to fame has been that it has taken advantage of the small-town competition's lack of strategy. Deal says that Wal-Mart, like most big department store chains, is "slow, inflexible and formula-oriented," and for small-business owners to be successful against Wal-Mart's "deep-pockets," they must find out where Wal-Mart's weaknesses lie and hit those areas hard.<sup>89</sup>

Writes Deal:

As long as Wal-Mart knows what the small guys are going to do, they don't worry. They know the small guys are often ignorant. They also know some of the small guys are really stupid. The Wal-Marts love it.

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<sup>89</sup> Jack Deal, "The Heartland Day 4," <http://www.dealconsulting.com/business/heart4.html>; Internet; accessed 26 November 1997.

The big guys eat for breakfast those that compete head on with them. That is Wal-Mart's strategy - 'we dare you to compete head on, and if you are too stupid to try, all the better for us.'<sup>90</sup>

While many in the retail industry do not question Wal-Mart's die-hard aggressiveness, others find it difficult for Wal-Mart to continue posting such staggering sales figures. One of Wal-Mart's biggest problems, notes an industry observer, is that Wal-Mart must continue to live up to its yearly sales performance which is not an easy undertaking. Additionally, because of rocketing real-estate costs, intense domestic competition from Kmart and Target, and near saturation of the United States, Wal-Mart is beginning to put much of its faith in concentrating on business beyond the American borders.

An article written by Jonathan R. Laing entitled, "Super Savors: That's What Wal-Mart's Supercenters and Broadened Horizons Could Be," explains investor's recent loss of confidence in Wal-Mart stock, but claims that only better days are ahead. Laing writes that, although there is no denying that shares have dipped from the "glorious performance of the past twenty three years," let us not forget that Wal-Mart boasts 10 two-for-one splits, and that an original investment of \$1,600 at Initial Public Offering would have grown to over \$3 million today. History aside, the recent skepticism of investors is fueled by Wal-Mart's announcement, less than 24 months ago, of its first decline in 99 quarters of record earnings. Nonetheless, Glass states,

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<sup>90</sup> Ibid.

"Hey, we still managed to make a profit of \$942 million for the quarter and record \$2.7 billion for the year, which hardly constitutes a disaster."<sup>91</sup>

Regardless, less skeptical analysts view Wal-Mart's past and current successes in the grocery business as Wal-Mart's number one savior, and claim that once this strategy is implemented full-force sales will improve dramatically and investor confidence will once again soar. How well is Wal-Mart's Supercenter concept currently reaching new clientele? "Let's just say we frequently are getting checks drawn on banks from some fifty miles away from our stores," says Nick White, the executive vice president in charge of Supercenters.<sup>92</sup>

It appears that soon Kmart and Target will not be the only merchants chasing what seems to be an uncatchable Wal-Mart. Some major grocers will be playing catch up as well. In fact, in keeping with its aggressive reputation, Wal-Mart already has its sights on overtaking the \$24 billion super market giant Kroger by the turn of the millenium.

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<sup>91</sup> Jonathan R. Laing, "Super Saviors: That's what Wal-Mart's Supercenters and Broadened Horizons Could Be," Barron's, May 1996, 17.

<sup>92</sup> Ibid., 18.

### 3.4.2. Physical Distribution:

Distribution has been so successful at Wal-Mart because senior management views this part of the company as a competitive advantage, not as some afterthought or necessary evil. And they support it with capitol investment. A lot of companies don't want to spend any money on distribution unless they have to. Ours spends because we continually demonstrate that it lowers our cost. This is a very strategic point in understanding Wal-Mart.<sup>93</sup>

Joe Hardin  
Executive Vice President, Logistics and Personnel

Walton humbly points out, and partially credits insights gained from other successful retailers of that day for his current success. Knowing that distribution would be the cornerstone to his success, he studied the distribution operations of other industry leaders. He teamed up with Sol and Robert Price of the Price Club and Harry Cunningham, founder of Kmart, to learn the secrets of their successes. Discussing the evolution of his distribution operations Sam says "I guess I've stolen - I actually prefer the word "borrowed" - as many ideas from Sol Price as from any body else in the business."<sup>94</sup> These words sum-up Sam Walton's philosophy on retail. He learned as much as he could, from as many retailers as he could, and incorporated what he learned into Wal-Mart's operations on a daily basis.

As successful Wal-Mart openings increased, expansion became part of Walton's long-term plans. A seemingly simple concept overlooked by other retailers of the day, but thought-up and capitalized on by Walton, was the scheme of distribution operations. Opposite the tradition of the day which was to build

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<sup>93</sup> Walton, 263.

<sup>94</sup> Ibid., 66.

warehouses to service existing stores, Walton would routinely locate a potential warehouse site from his personal plane, which he referred to as “a great tool for scouting real estate,” and build a warehouse. Then he placed stores within a day’s drive, or approximately 400 miles, or five to six hours away.

Abe Marks, President of the National Mass Retailers’ Institute likened Sam Walton’s placement of stores to that of the military’s logistics philosophy. “You can move troops all over the world, but unless you have the capacity to supply them with ammunition and food, there’s no sense putting them out there.”<sup>95</sup> Sam understood this. If he wanted to grow he had to learn to control it. So to service his stores he demanded timely information to include knowing: how much merchandise was in a particular store, the type of merchandise it was, what was selling and what was not, and what needed to be ordered, reduced, or replaced.

Although Walton was considered a visionary during the 1970s, he admitted that trying to get a handle on how to distribute merchandise to a growing number of stores in remote locations was his biggest concern. He explained that, not without reservation, he finally allowed his upper management to convince him that he needed to invest in technology, as well as buy his own trucks to keep track of and deliver the merchandise store managers were screaming for. He finally relented to purchasing two tractors and four trailers against his management’s desire to double these numbers. Today, Wal-Mart boasts the retail industry’s largest privately-owned fleet

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<sup>95</sup> Ibid., 110.

of trucks with an inventory of over two thousand tractors and more than twelve thousand trailers.

Walton explains the enormity of his distribution operations at a typical Wal-Mart Distribution Center:

You really have to see one of these places in action to appreciate them, and sometimes I can hardly believe them myself. But I'll try to describe the activity at one. Start with a building of around 1.1 million square feet, which is about as much floor space as twenty-three football fields. Fill it high to the roof with every kind of merchandise you can imagine, from toothpaste to TV's, toilet paper to toys, bicycles to barbecue grills. These goods move in and out of the warehouse on some 8 1/2 miles of laser guided conveyer belts, which means that the lasers read the barcodes on the cases and then directs them to whatever truck is filling the order placed by one of the stores it's servicing that night. On a heavy day those belts might handle up to 200,000 cases of goods. If you get the idea that I'm awfully proud of what we've managed to do in distribution, you're right.<sup>96</sup>

On the average, a model Wal-Mart distribution center receives and ships approximately 250,000 cases of merchandise daily. Approximately 10,000 items common to each warehouse stock shelves which measure six miles in length and sit on an average of 28 acres. Additionally, each warehouse stocks approximately two thousand seasonal items.

At the Douglas, Georgia distribution center there are twelve shipping lanes and eighty six overhead doors on the truck dock. Says the general manager of the Wal-Mart distribution center at Cullman, Alabama, "The technology we use is standard-mechanized conveyors, bar coding and computer inventory. A lot of companies use

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<sup>96</sup> Ibid., 269.

it. But no one runs it as hard as we do.”<sup>97</sup> David Glass, the current President of Wal-Mart echoes these sentiments saying “If we do anything better than the other folks, distribution is it.”<sup>98</sup>

### **3.4.3. Pricing Policies:**

Another of Wal-Mart’s cornerstone strategies, and perhaps Sam Walton’s most prominent tactic to gaining and retaining his millions of customers was his willingness to sell large amounts of merchandise at a low profit. In his book, Walton explains his simple, yet groundbreaking philosophy on pricing. It was this strategy which other discount retailers were forced to adopt if they wanted to compete with Wal-Mart:

Here’s the simple lesson we learned – which others were learning at the same time and which eventually changed the way retailers sell and customers buy all across America: Say I bought an item for 80 cents. I found that by pricing it at \$1.00 I could sell three times more of it than by pricing it at \$1.20. I might make only half the profit per item, but because I was selling three times as many, the overall profit was much greater. Simple enough. But this is really the essence of discounting: by cutting your price, you can boost your sales to a point where you can earn far more at the cheaper retail price than you would have by selling the item at the higher price. In retailer language you can lower your markup but earn more because of the increase volume.<sup>99</sup>

In fact, Sam’s philosophy is still evident at Wal-Mart. Originating at Wal-Mart is the term many shoppers identify with called “Every Day Low Prices”

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<sup>97</sup> Vance H. Trimble, Sam Walton, founder of Wal-Mart, The Inside Story of America’s Richest Man, (New York, Signet Publishers, 1991), p264.

<sup>98</sup> Ibid, 263.

<sup>99</sup> Walton, 32.

(EDLP). EDLP delivers cost savings to customers as a result of cost reductions in operations. For example, the money Wal-Mart saves on its low advertising budget, and by not holding weekly or seasonal promotions, is used to streamline operations. The money saved by streamlining is passed back to the customers in lower prices. Says Donald Soderquist, Wal-Mart's Chief Operating Officer, "We think of ourselves as agents for the customers, buying for them rather than selling to them. As long as there are Wal-Marts, there will be Every Day Low Prices."<sup>100</sup>

Walton elaborates:

We believe in the value of a dollar. We exist to provide value to our customers, which means that in addition to quality and service, we have to save them money. Every time Wal-Mart spends one dollar foolishly, it comes right out of our customer's pockets. Every time we save them a dollar, that puts us one more step ahead of the competition - which is always where we always plan to be.<sup>101</sup>

#### **3.4.4. Customer Satisfaction:**

From the beginning Walton designed his stores to reflect the concerns and values of his local customers. He claims his most basic strategy for setting Wal-Mart apart from the competition is its closeness to the customer. In his book, Sam Walton sums up his perspective on the criticality of a good relationship between Wal-Mart and its customers:

Here it is - the way management treats the associates is exactly how the associates will then treat the customers. And if the associates treat the customers well, the customers will return again and again, and *that* is where the real profit in this business lies, not in trying to drag strangers into your stores for one-time purchases based on splashy sales or

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<sup>100</sup> Wal-Mart Stores, Inc., 1996 Annual Report, 6.

<sup>101</sup> *Ibid.*, 12.



expensive advertising. Satisfied, loyal, repeat customers are at the heart of Wal-Mart's spectacular profit margins, and those customers are loyal to us because our associates treat them better than sales people in other stores do. So the whole Wal-Mart scheme of things, the most important contact ever made is between the associate in the store and the customer.<sup>102</sup>

One of Wal-Mart's mottos is "Our People Make the Difference," and Wal-Mart treats its associates as partners who share in the company's profits. Its practice of Productivity Improvements Through People encourages associates to make recommendations on increasing sales, or cutting costs, and motivates them to take personal pride in their work sites, and the financial performance of their store. If a sales-increasing or cost-reducing recommendation is considered worthy of dissemination, "multiply each suggestion by over 2,700 stores in the U.S and abroad, and over 700,000 associates (who can potentially make suggestions), and this leads to substantial sales gains, cost reductions and improved productivity."<sup>103</sup>

Three good examples of the benefit of this program are found in Wal-Mart's 1996 Annual Report. One employee discovered a method to double the amount of rolled carpets on pallets for truck shipment. This method eventually saved Wal-Mart approximately \$250,000 annually. Another employee discovered the unnecessary duplication of certain product reports and streamlined the procedure to save Wal-Mart \$736,000 a year. Yet, another employee found that by simply adjusting the toner level on the printers in his store, he saved significant costs. When adopted across the country the collective financial savings from this idea amounted to over \$250,000 annually.

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<sup>102</sup> Ibid., 164.

<sup>103</sup> Trimble, 144-5.

The most noteworthy and well-known example of Walton's relationship with his customers and associates, is his trademark practice of having an associate greet incoming and outgoing customers. This concept, actually recommended by an associate, has been imitated by many other major discounters, however, Wal-Mart's greeters are considered unique in their friendliness and patience.

This section has defined and illustrated the use of four corner stone marketing techniques in the discount retail industry. If retailers do not adopt and adapt these techniques to their own operations, they do not stand a chance of remaining viably competitive in today's retail environment. As discussed above, the high bargaining power of the 1990s consumer has forced retailers to either meet the consumer's shopping needs, or lose their business to those who do.

In its simplest terms, meeting their needs includes being close by (identifying target markets), and having products readily available (physical distribution) at an affordable price (marketing and pricing policies), while feeling satisfied with the service they receive (customer satisfaction).

A common thread noted throughout research conducted was the retail industry's reliance on technology within the four techniques discussed. As technological advances almost outpace the industry's ability to keep up, the retailer who uses this technology with the most creativity and savvy, clearly has the dominant competitive advantage. Technology is used for everything from analysis on locations and consumer behavior, to passing on sales and replenishment information at lightning speed. The quicker the information is received and analyzed, the quicker it

can be passed to the entity needing it to predict, rather than react to consumer behavior.

Sam Walton's early vision on the placement of his distribution centers and stores, not only to keep his shelves constantly stocked, but to draw customers, has certainly paid off. In addition, Wal-Mart boasts the industry's most sophisticated information systems, and its industry-leading replenishment standards are a direct result.

In regard to all four marketing practices examined, Kmart pales in comparison across the board to Target and Wal-Mart. Ironically, only eight years ago Kmart was undisputedly the world's largest retailer. Today, due to Sam Walton's success in achieving his expansion plans, it is only a third the size of Wal-Mart. Amid rumors of Kmart having to file for Chapter 11, eighteen months ago its stock has plummeted almost fifty percent. An article in Forbes magazine titled "Trouble: Kmart is Down for the Count...and Floyd Hall Doesn't Look Like the Man to Get it Back on it's Feet," states that Kmart's standing with consumers is below Wal-Mart in every conceivable area to include merchandise selection, service and value. Other shortcomings mentioned include many items out of stock, low employee morale, and sloppy, unappealing stores. The article states that Kmart's core customer averages fifty-five years old with an income under twenty thousand dollars. New CEO Floyd Hall thinks that Kmart needs the younger, richer customers that frequent Wal-Mart, but industry analysts claim that "Kmart's typical shoppers are pretty much like Wal-

Mart's, there are just far fewer of them."<sup>104</sup> There are many industry analysts scratching their heads in amazement that Kmart is still above water, and apparently, because of the shortcomings noted above, Kmart poses more of a threat to itself than to others discounters.

On the other hand, Target, owned by Dayton Hudson Corporation, seems to be basking in the retail spotlight. Its earnings rose fifty percent by end of year 1997, and shares of its stock skyrocketed to seventy-one cents a share, compared to forty-seven cents a year ago. Says David Poneman, an analyst at Sanford C. Bernstein in New York, "Target is on a roll. They've been doing extremely well for almost two years now, and they weren't doing too badly before then."<sup>105</sup> But, maybe greater long-term importance, Target has seemed to find peaceful coexistence even in areas with nearby Wal-Marts.

### **3.5. ASPECTS OF INTERNATIONAL BUSINESS:**

"One of our growth vehicles is clearly our international operation," says David Soderquest, Wal-Mart's vice chairman and chief operating officer. "The entire global economy and the entire international scene provide us with many opportunities."<sup>106</sup>

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<sup>104</sup> Patricia Sellars and Tim Carvell, "Trouble: Kmart is Down for the Count...and Floyd Hall Doesn't Look Like the Man to Get it Back on it's Feet," *Fortune*, 15 January 1996, 102.

<sup>105</sup> "Daytons Earnings up 50 Percent," <http://www.wcco.com/news/stories/news-971118-172254.html>; Internet; accessed 10 February 1998.

<sup>106</sup> Mendleson and Johnson., 30.

In addition, because of rocketing domestic real-estate costs, and intense domestic competition in the discount retailing business, Wal-Mart is beginning to put much of its faith in concentrating on business beyond the American borders. Says Kurt Barnard, president of Barnard's Retail Marketing Report, "Internationally, Wal-Mart is well on its way. From what I have seen over the last few years, Wal-Mart has learned its international lessons pretty well."<sup>107</sup> According to Barnard the only thing to do domestically is to capture the last few bastions that so far have remained without a Wal-Mart, and from that point just increase the square footage in the existing stores.

It should come as no surprise that Wal-Mart's intent is to become the number one retailer no matter where it sets up operations. Although thought by some to be overly aggressive, Wal-Mart leadership admits they will retain the heavyweight retail title by concentrating on "one-store-at-a-time."<sup>108</sup> This statement of patience does not overshadow Wal-Mart's desire of its international operations to eventually reap twenty five percent of the company's overall sales. Joseph Ronning, a retail analyst with Brown Brothers Harriman in New York, agrees that Wal-Mart has a legitimate need and great potential to succeed in the international market, but does not see it as such an easy conquest. Ronning says there is risk present, even for a company as powerful as Wal-Mart. Ronning states that Wal-Mart needs to be sensitive to differing cultures in the countries it plans to expand into. "They are going to deal with different cultures which may or may not lend themselves to the way Wal-Mart

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<sup>107</sup> Ibid.

routinely conducts its business. Opening a store in Arkansas and Vermont is not the same as opening a store in a foreign country.”<sup>109</sup>

Wal-Mart downplays this difficulty. John Menzer says that the Wal-Mart culture is transportable, and a customer shopping in China “will find the same great Wal-Mart culture that you see in the United States.”<sup>110</sup> Yet, some say this is untrue, and that Wal-Mart’s expansion abroad is not without its problems. In fact, China is viewed as Wal-Mart’s most risky international venture to date because the Chinese are still testing an open-market society. In addition, Wal-Mart has accrued high start-up costs in Asia, and potential profits are not expected to be realized for two to three years.

An article in the May 1997 edition of Businessweek titled, “Blazing Away at Foreign Brands,”<sup>111</sup> discusses Wal-Mart receiving bad publicity in China, as the Chinese media accused Wal-Mart of everything from selling pirated books, to disturbing its Chinese neighbors with loud air conditioners, to false advertising. This last charge stemmed from accusations by Chinese buyers that Wal-Mart falsely labeled audiovisual equipment “made in the USA” when in fact it was made in China. After a severe lambasting by the Chinese newspapers, a Chinese court ordered Wal-Mart to return the full value of the equipment - \$120,000 - and pay additional storage and transportation costs. Additional problems encountered by Wal-Mart’s China

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<sup>108</sup> Ibid., 32.

<sup>109</sup> Ibid.

<sup>110</sup> Ibid., 36.

<sup>111</sup> Dexter Roberts, “Blazing Away at Foreign Brands,” Businessweek, May 1997, 58.

operation were brought to light in an article in the Economist titled "The Lessons the Locals Learnt a Little Too Late." This article says that Wal-Mart was guilty of thinking that it would be relatively easy to plug a successful American operation into China. It states that Wal-Mart did not consider the differences between Americans and the Chinese in buying behavior and living conditions:

In particular they seemed to have presumed that the since Kowloon and Arkansas are both home to 2.5 million people, the same products would sell equally well. However, basketball sets and garden games are not much use to people living in tower blocks in the most densely populated spot on earth. Nor do Hong Kongers have the space to store the bulk purchases the Wal-Mart's American customers find so alluring.<sup>112</sup>

The article also points out that Wal-Mart miscalculated the sales the Chinese would provide. It states that although the allure of China's 1.2 billion residents tempts many retailers to venture into China based on population alone, the Chinese actually spend very little, as their incomes afford then so little to spend.

Nonetheless, the overriding message from China is that many retailers have stumbled due to overlooking one of the most fundamental characteristics of business: that of knowing the customer.

In light of the uncertainty and unknowns, Wal-Mart has historically come out on top of gambles taken. Discussing Wal-Mart's bet on China, David Glass, Wal-

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<sup>112</sup> No author given, "The Lesson the Locals Learnt a Little Too Quickly," The Economist Archives, [http://www.Economist.com/archive/buy.cgi?filename=/economist/d4/economist-dev/fiparchive/fipfiles//1996\\_ou](http://www.Economist.com/archive/buy.cgi?filename=/economist/d4/economist-dev/fiparchive/fipfiles//1996_ou), Internet; accessed 3 March 1998.

Mart's Chief Operating Officer, says, "Wal-Mart has invested \$80 million to be in on the ground floor if all goes well, a small gamble given the potential."<sup>113</sup>

Wal-Mart has taken its fair share of criticism in Canada as well. According to an organization known as the Council of Canadians in Ontario Wal-Mart practices the following:

- ◆ Purposely setting its stores on the outskirts of towns to avoid paying as much property tax as those located in town.
- ◆ Offering very low paying jobs, and mostly part-time employment, with minimal, if any, benefits.
- ◆ Costing Canada over 1000 jobs when Wal-Mart took control of seven unionized Woolco Retail Stores. Additionally, Wal-Mart converted these stores' auto service centers to strictly oil and lube services and demanded the mechanics take a substantial cut in wages.
- ◆ To accommodate Wal-Mart's size and the customers who frequent their establishments, huge, sprawling parking lots are built on spacious lots, often on previous farm land. Wal-Mart apparently shows no concern for the polluted drainage their heavily traveled areas generate.
- ◆ Manufacturing clothing for 14 cents an hour in a plant in Haiti which was owned by a supporter of a brutal military regime. Human rights organizations

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<sup>113</sup> Mendelson and Johnson., 46.



have also reported that Wal-Mart has used Chinese forced prison labor to make its private label jeans and shoes.<sup>114</sup>

This group is urging citizens to contact their mayors, city councilmembers, or the city planning departments to urge for public discussion on not only the economic impact of Wal-Mart moving to Canadian locations, but their unfair treatment of employees, anti-union policies, possible environmental hazards, and human rights violations.

Additionally, a column published in 1994 in the Canadian Magazine McLean's, points out that Wal-Mart culture is not that easily transferred. The article, written by Deirdre McMurdy and titled "Baffling Bentonville: Executives from the Arkansas-based retail giant, Wal-Mart, are struggling to understand Canada" details numerous problems in Wal-Mart's attempt to transition to another culture; most notably "we may look like Americans and we may placidly consume American culture, but Canada, as the fellas from Wal-Mart are just starting to grasp, is a whole different kettle of crawfish."<sup>115</sup> McMurdy points out that Canadians do not share in America's crusade of capitalism, and they are not as enthusiastic as the Americans when it comes to this "cult thing," referring to the Wal-Mart daily tradition of opening a U.S. store by singing the "Star Spangled Banner" followed by the "Wal-Mart Cheer." (Employees at the Calgary Store in Canada declined to sing the Canadian National Anthem at their morning assembly.) Another lapse in the learning

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<sup>114</sup> Up Against the Wal! Facts you should know about Wal-Mart; <http://tdg.uoguelph.ca/lilith/no-wal/index.html>; Internet, accessed 14 August 1997.

<sup>115</sup> Deirdre McMurdy, "Baffling Bentonville: Executives from the Arkansas-based Retail Giant Wal-Mart, are Struggling to Understand Canada," McClean's, volume 107, May 1994, p 36.

curve occurred when senior management sent a series of memorandums from the home office in Bentonville in English only. "You bet, we surely heard about that," said Mel Rodman, who heads the "Canadian Transition Team."<sup>116</sup>

Another hard lesson in understanding the nuances of operating in a foreign land occurred in Mexico. Wal-Mart viewed the 1994 passage of NAFTA as a prime opportunity to expand their operation into Mexico, as just five years earlier Mexican regulations restricted foreign entrance into their market. Ignorance of Mexican regulations blackened Wal-Mart's eye in the form of a surprise inspection at their Supercenter in Mexico City in 1994. Apparently, Mexican inspectors scrutinized Wal-Mart's labeling practices to see if they were in compliance with a statute requiring each product to display the country of origin, instructions, and contents in Spanish. Of over 80,000 products in the Supercenter, approximately 12,000 were discovered to be in violation. Although Wal-Mart countered that roughly forty percent of their inventory was purchased on the local Mexican economy, the inspectors assessed that Wal-Mart was ultimately accountable for improper labeling. Wal-Mart was forced to cease operations for seventy-two hours to rectify the situation. To worsen matters, eleven months later, the Mexican economy suffered an alarming dip, as the peso plunged by more than thirty-five percent against the U.S. dollar. This resulted in a lack of consumer confidence, and Wal-Mart's sales suffered dramatically. These two incidences forced Wal-Mart to reconsider, and ultimately postpone their plans to open an additional twenty-four stores in the following year.

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<sup>116</sup> Ibid.

In 1995 Wal-Mart suffered more controversy overseas when they accused a group of eleven Argentinean suppliers of refusing to sell to its Sam's Club wholesale center in Avellaneda because of pressure put on the suppliers by other large Argentinean retailers. Wal-Mart ran an advertisement in the two largest daily newspapers stating, "Since Sam's Club arrived in Argentina prices have started falling; ours as well as our competition's. In the supposed price war we do not have enemies, we have competitors. We invite you to Sam's Club so you can meet us personally, without being guided by promises or opinions of others."<sup>117</sup> The article, which failed to specifically mention which retailers were exerting pressure on the suppliers, caused a stir throughout the Argentinean retail community. Questioned as to his involvement in these coercion tactics Oscar Guile, Director of Supermercados Norte, Argentina's third-largest retail chain responded, "Absolutely not!, We've been here for thirty years and consider ourselves competitive, but ethical. If Wal-Mart is going to make accusations, then they should mention names."<sup>118</sup>

Some retail analysts see Wal-Mart's blaming its supply stoppage on its competitors as an excuse for lack of clout with foreign suppliers. Says one analyst, who asked to remain anonymous, "Wal-Mart thought it was going to have strong negotiating power with suppliers as soon as it entered Argentina. That was a mistake.

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<sup>117</sup> Mike Galetto, "Wal-Mart's Argentine Rivals Cry Foul," Advertising Age, volume 66, 4 September 1995, p.11.

<sup>118</sup> Ibid.

They won't have considerable weight with suppliers until it has at least three or four stores."<sup>119</sup>

Overcoming problems encountered in China, Canada, Mexico, and Argentina is viewed by Wal-Mart as learning experiences to be shared among other international managers to help preclude future potential problems in international operations. Nevertheless, these problems should not be down-played, but they are not insurmountable, and may be viewed as subtle compared to the enormity of Wal-Mart's over all operations scheme.

In lieu of the growing pains Wal-Mart is experiencing in the International Business arena, it is bound by an overwhelming commitment to succeed, and this commitment permeates throughout Wal-Mart whether in the United States or overseas. Based on past successes, Wal-Mart may overcome whatever obstacles lie in its path to reaching its twenty five percent international sales goal; and perhaps ahead of time.

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<sup>119</sup> Ibid.

## **CHAPTER 4 – CRITICAL ANALYSIS**

### **4.1. INFORMATION RESOURCES MANAGEMENT**

#### **4.1.1. Point of Sale (POS) Software:**

Wal-Mart's analysis of its POS information is at the heart of its success. The timely passing of this type of data was seen by Walton as a very powerful tool. Writes Walton:

That's why we've spent hundreds of millions of dollars on computers and satellites – to spread all the little details around the company as fast as possible. It's only because of our information technology that our store managers have a really clear sense of how they're doing most of the time. They get all kinds of information transmitted to them over the satellite on an amazingly timely basis to include up-to-the-minute point-of-sale data that tells them what's selling in their own stores.<sup>120</sup>

Analysis of this information enables Wal-Mart to better keep its shelves continuously stocked with the fastest moving items. Attributable to the effective use of this data, Wal-Mart boasts a greater than 99.5% on-time delivery, which leads the retail industry. The costs Wal-Mart saves associated with storage, stockage, inventory, management, and distribution are then passed through its overall corporate operation, and most importantly, to customers through lower prices on the products it carries.

Wal-Mart is considered visionary in its use of POS data as exemplified in section 3.2.1. where its sharing of POS data with in-store McDonalds restaurants was highlighted. Many other retailers are trying to replicate its innovative lead.

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<sup>120</sup> Walton, 283.

#### **4.1.2. Client/Server Systems:**

Walton writes of his frustration during his early days in retailing when there were no communications between retailers and their suppliers. He claimed that this void in communication led to poor planning, which resulted in higher costs incurred by customers and less profit by corporate retailers. To put an end to this deficiency, Wal-Mart developed an instantaneous, interactive communications link to over 4000 vendors who submit over 10,000 daily queries.

The development of this system, called "Retail Link," enables suppliers and vendors to assemble proactive, more accurate forecasts, develop sales histories on certain products, plan purchases to better meet supply and demand cycles, streamline distribution costs, and help determine how well new items are selling.

Taking this ground breaking technology a step further, it was announced in the April 1998 edition of Discount News that Wal-Mart incorporated a chat feature to Retail Link and now offers this service over the Internet as a test to over thirty of its vendors. Depending on the success of this pilot program, Wal-Mart will expand this service to all of its vendors. Also noted in this edition, and illustrative of Wal-Mart's success in its development and use of this technology, was the mention that Wal-Mart's Retail Link booth at the IQ '97 technology show generated the most traffic of all participants.

#### **4.1.3. Decision Support Software:**

Using advanced algorithms, the decision support software that Wal-Mart is using allows it to analyze sales of individual items "at a lower level than we could ever have

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done previously, says Rob Fusillo, Director of Replenishment Systems at Wal-Mart.

This software sifts through a year's worth of POS data in two days, and delivers specified pattern analysis which Wal-Mart uses to update its ordering and replenishment systems. When operating at its maximum capacity, this software can analyze up to 700 million store-item combinations.<sup>121</sup> However, Wal-Mart is only one of three committed customers testing this cutting edge technology, (probably because of the cost which can range as high as \$750,000 per set of software when consulting fees are included.)

Not withstanding, Fusillo claims, that in the future, Wal-Mart's merchandising associates will be managing exceptions rather than making replenishment decisions that come up. "The bottom line," says Fusillo, "In the end, we'll get better decisions."<sup>122</sup>

It is apparent that Wal-Mart is not standing still to allow other retailers room to catch up to its dominance in innovative development and use of information technology. To distance themselves from this possibility, Wal-Mart is constantly looking to new technology to improve their operations in an attempt to make it more efficient. To illustrate the enormity of this commitment, consider that Wal-Mart's current information systems network is the largest privately-owned system in the world, and second only to the Pentagon's.

Wal-Mart has certainly earned its reputation as the retailer to emulate when it comes to competitive advantage through technology. Its acquisition and innovative use of automation in the retail industry unquestionably makes it "second to none."

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<sup>121</sup> Craig Stedman, "Wal-Mart Mines for Forecasts," Computerworld, May 26, 1997, 63.

<sup>122</sup> Jeff Moad, "Taking Stock: New Closed-loop Decision-support Systems are Helping Companies such as Wal-Mart Automate Fast Responses to Market Changes," PC Week, May 26, 1997, 147-9.

## **4.2. MANAGEMENT OF STRATEGIC ISSUES**

### **4.2.1. Threat of Entry:**

Wal-Mart faces little threat of entry from any other retailer, new or old. While most are fighting for survival, Wal-Mart is striving, and expecting to break the \$115 billion sales figure in fiscal 1998. Sales of this magnitude clearly put Wal-Mart in a league of its own. Even if there were a success story in the making in the retail industry, it would likely take decades to catch up to Wal-Mart's sales and caliber of operations. Nonetheless, given Wal-Mart's rate of growth, a newcomer would still be hard-pressed to catch up within a threatening distance.

### **4.2.2. Intensity of Rivalry:**

As discussed in section 3.1.5., Wal-Mart has been the recipient of a growing nation-wide opposition to its expansion into small-town America. For example, Mr. Glenn Falgoust, a former store owner in Erie, Pennsylvania claims that in the ten years before Wal-Mart opened there, they had a total of 20 business failures; this in a time of unparalleled economic expansion. In the ten years since Wal-Mart has been there, they have experienced 185 business failures. "You could buy a bicycle in eight locations in this town. Today, if you want a bicycle, you can only but it at Wal-Mart."<sup>123</sup> This monopolistic action by Wal-Mart has small-town merchants replacing Wal-Mart's

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<sup>123</sup> Up Against the Wal-Mart, transcript of 60 CBS News program 60 Minutes, aired on 3 September 1995.



universal motto of "Buy it low, stack it high, sell it cheap" to "Stack it deep and sell it cheap, stack it high and watch it fly, hear those town merchants cry!"<sup>124</sup>

According to a 60 Minutes report with Morely Safer "Fifty-two million Americans, one-fifth of the population, shop in a Wal-Mart every week. Of every ten dollars spent on department store merchandise, two dollars goes into a Wal-Mart register."<sup>125</sup> Impressive as these figures are for Wal-Mart, this is bad news for all of the other retailers whose registers these dollars are avoiding. Says Glenn Falgoust, a once thriving business owner from Donaldsonville, Louisiana, "For a small town business to compete with a Wal-Mart is like having your high school football team play the National Football League's Forty Niners - they just don't have a chance."<sup>126</sup>

Defending Wal-Mart's corner-stone strategy, Don Soderquist, the Vice Chairman and Chief Operations Officer of Wal-Mart, downplays any secrecy to Wal-Mart's success and shows little compassion toward the plight of the small-town business owner:

We've never been very sympathetic to this whole small-town argument. The whole point of retailing is to serve the customer. If you're a merchant with no competition, you can charge high prices, open late, close early, and shut down on Wednesday and Saturday afternoons. You can do exactly what you've always done and probably be just fine. But when competition comes along, don't expect your customers to stick with you for old time's sake.<sup>127</sup>

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<sup>124</sup> Wal-Mart Comes to Canada, <http://www.ufcw1518.com/wal-mart.html>.

<sup>125</sup> Thomas J. Kirby, "What's Going On in Retail America and Power retailing Facts," <http://www.powerretailing.com/retailamerica.html>; Internet; accessed 19 April 1998.

<sup>126</sup> Ibid.

<sup>127</sup> Walton, 228.

Walton writes "We aren't the least bit naive about how big a stick Wal-Mart swings in the world of retailing these days. We know we can be very influential - powerful if you prefer. So today I think it's important for people to remember that things aren't the same as the old days when we were the scrappy underdog having to fight for every single break. We still want to drive a hard bargain, but now we need to guard against abusing our power. We want to find more ways in which we can use our influence to give something back."<sup>128</sup> In the final analysis it is apparent that Wal-Mart takes much more than it gives back to the community.

Wal-Mart's no nonsense approach to its competition reflects its philosophy that retailing is based on the fundamental of focusing on customer needs and delivering what they want. If other retailers want to compete, Wal-Mart feels that following this simple philosophy is what they must follow. Wal-Mart's theory aside, there are scores of Wal-Mart related casualties across the country whose owners would disagree, some who have taken their arguments to court.

#### **4.2.3. Threat of Substitutes:**

As long as Wal-Mart continues to offer a wide selection of popular products provided by suppliers who take pride in stocking Wal-Mart's shelves, it faces little threat from substitute products or sources. In addition, in keeping with Wal-Mart's tradition of leading the discount retail industry in almost every conceivable category, its private label program is among the most successful in the nation. "Our focus is on quality; it speaks volumes to our customers," says Bob Anderson, Wal-Mart's vice president of

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<sup>128</sup> Ibid, 244.

private label foods. "If the quality is in the product, the customer will come back to our stores a second and third time. We hang our hat on setting goals that exceed our customers' expectations. The bottom line is that quality and value go into every item that gets to our shelf."<sup>129</sup>

Wal-Mart's information technology is not the only strength worthy of replication by other retailers, its private label program is the envy of many as well. Says an unnamed retailer from the Northeast, "We use the Wal-Mart private label program as a benchmark for our chain's own private label development strategy. Wal-Mart people treat private label like its own separate brand. It's a product that is designed to compete directly with national brands, yet, at the same time, compliment the overall shopping adventure."<sup>130</sup>

Anderson notes that 34% of consumers with annual household incomes greater than \$100,000 now buy private label products, as do older consumers, therefore potential profits from this program are enormous. "It goes back to the same thing, as the quality and value increases, the more likely a shopper is to try a product once and then come back a second time for it," he says<sup>131</sup>

Wal-Mart's reputable private label program helps further define Wal-Mart in the consumer's mind, which strengthens its draw of customers, resulting in higher sales. Also, Wal-Mart has to deal less with the outside vendors of other comparable

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<sup>129</sup> Mendelson and Johnson., 39.

<sup>130</sup> Ibid.

<sup>131</sup> Ibid.

products, thus eliminating costs which are passed on to its clientele. Regardless, Wal-Mart can still offer lower prices on products outside of its private label program because its relationships with its suppliers is so strong.

At a recent taste test of six colas conducted in Boston, Massachusetts, Sam's Choice Cola finished a very close third behind Pepsi Cola and another private label. Coca Cola finished fourth. For Sam's Cola to edge out a major, nationally recognized brand like Coca Cola is a notable achievement, and Wal-Mart's management and customers recognize that. Add to this the fact that price-conscious consumers can purchase Wal-Mart's cola for half the cost of Coke, and Wal-Mart has yet another win-win program in its arsenal.

#### **4.2.4. Bargaining Power of Buyers and Suppliers:**

As discussed earlier in this paper, Wal-Mart is widely credited with opening the door on Retailer/Supplier relationships by communicating to them how well their products were selling in Wal-Mart's stores. This "peaceful coexistence" has recently become even stronger as evidenced in an article in Discount Store News entitled, "The Power Merchants: Lee Scott and Wal-Mart: Mega Merchant with Grass Roots."<sup>132</sup>

Says Lee Scott, Wal-Mart's head of merchandising:

Suppliers have helped their cause by focusing more on selling their products to customers than merely getting their products on Wal-Mart's shelves. When I first came to the merchandising department vendors wanted to talk about how much product they sold to Wal-Mart. Today, I very rarely hear that. They almost all talk about how much product Wal-Mart sold to customers. They are not worried as much about sell-in as they are about selling through.<sup>133</sup>

Although Wal-Mart clearly has the upper hand as to whose products will fill its shelves, its position is that it would rather work with its suppliers, and settle an unresolved issue amenable, for the common good of its customers.

### **4.3. CONCEPTS IN MARKETING**

#### **4.3.1. Identification of Target Markets:**

Wal-Mart's goal to be within easy reach of every American, and with a grand opening occurring almost every day, it is fairly close to achieving this objective. In essence, Wal-Mart has turned into such a well-known American phenomenon, loyal

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<sup>132</sup> Mike Troy, "The Power Merchants: Lee Scott and Wal-Mart: Mega Merchant with Grass Roots," Discount Store News, 12 December 1997, 25.

<sup>133</sup> Ibid., 27.

Wal-Mart customers would likely somehow find a way to frequent a Wal-Mart built on a remote island. In the early 1970s Sam Walton designed his expansion plans based on moving into towns where the population was less than 5000 people. This has worked out so well, that Wal-Mart has currently reached near saturation. Wal-Mart has reached the point where defining or identifying a target market is less problematic than finding a location without an existing store where it feels the need exists to erect one.

#### **4.3.2. Physical Distribution:**

Says, Joe Hardin, Executive Vice President for Logistics and Personnel, "We never have to rely on what's going on in somebody else's shop. In our case, we generally know where things are in relationship to when we want them to arrive, so we can schedule and plan to move goods into the stores at the right time."<sup>134</sup>

By owning, operating and managing their own distribution system Wal-Mart has a great competitive edge over its rivals. Sam Walton's vision of positioning his stores within a day's drive of a warehouse was ingenious. Resupply time is shortened, which results in shelves fully-stocked at all times. The savings Wal-Mart accrues by not having to rely on third-party suppliers ultimately buys greater amounts and varieties of goods at cheaper prices. These products are then offered at cheaper prices which attracts more customers and keeps them coming back.

Combined, its distribution centers account for 18 million square feet of warehouse space. Each store stocks over 80,000 items, and their warehouses replenish

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<sup>134</sup> Walton, 266.

over 85% of their inventory, compared to an approximate average of 60% for their competition. Shortly before his death in 1992, Sam Walton said, "I think it's fair to say that Wal-Mart's distribution system is the envy certainly of everyone in our industry, and in a lot of others as well."<sup>135</sup>

#### **4.3.3. Pricing Policies:**

Wal-Mart is no stranger to controversy when it comes its pricing policies. It has been blamed repeatedly for strategically setting its prices lower than local competitors, often below cost, and holding them there until the local retail competition is driven out of business. With the local competition gone, Wal-Mart is then said raise it prices to recoup losses incurred while it was selling products below cost. According to U.S. and many state antitrust laws this is not only immoral, but illegal as well.

As noted earlier in this paper, Wal-Mart was found guilty in 1993 of Arkansas antitrust violations by setting prices on it pharmaceuticals lower than local pharmacies with the intent to put them out of business. The plaintiffs charged that Wal-Mart was guilty of "predatory pricing" techniques. They claimed that Wal-Mart set its prices below cost forcing them to do the same in order to compete. They contended that, over time, the losses they would incur trying to compete with Wal-Mart's prices would force them to file for bankruptcy, and leave Wal-Mart as the sole supplier. The court put an end to Wal-Mart's pricing policies because it contended that as a sole supplier, Wal-Mart would have created a monopoly in the local pharmaceutical market. Although

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<sup>135</sup> Ibid, 265.

overturned in 1996, these accusations leveled at Wal-Mart sent a clear message to the rest of retail industry that practices of this nature would not be tolerated, or would at least be taken up in court.

Another black eye in regard to Wal-Mart's pricing and labor policies was evidenced at a new store's grand opening in Philadelphia when students of a high school band scheduled to play there packed up their instruments and went home. This unexpected departure occurred when the band member's teachers and the local UFCW union leaders explained the reason for a picket line growing outside the store; Wal-Mart's predatory pricing policies known to destroy small businesses and leave communities with low paying jobs. The students voted to cancel their appearance, thereby demonstrating their disapproval of such practices.

In the final analysis, Wal-Mart has proven it has had its way, even though a few small-town organizations have fought the conglomerate and won. Nevertheless, millions of shoppers are forced to search for the lowest possible prices in order to make ends meet. These shoppers have the option to choose and the ability to travel in order to get a better bargain. According to an article in USA Today titled "Main Street Can Come Back," shoppers are simply too mobile to be stopped from getting the bargains they want and many of them need. A large share of discount-store customers make less than \$20,000 a year. To them, a few dollars saved on shoes and shirts can buy food for dinner or Christmas gifts for kids. They don't want to pay more and won't."<sup>136</sup>

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<sup>136</sup> "Main Street Can Come Back," USA Today, October 18, 1993, section B, p12.



#### 4.3.4. Customer Satisfaction:

Taking care of his customers was Sam Walton's most basic tenet of success, and this practice is still the centerpiece of the Wal-Mart's culture. If it were not for exceptionally satisfied customers, Wal-Mart would never have reached its planned \$100 billion in sales three years ahead of schedule. Walton's recipe for keeping his customers happy is to, "give the customer everything: a wide assortment of good quality merchandise; the lowest possible prices; guaranteed satisfaction with what they buy; and convenient hours. This all leads up to a pleasant shopping experience."<sup>137</sup>

During one Christmas season, Sam Walton felt so strongly about making his customers feel comfortable in Wal-Mart's stores that it compelled him to get in front of a TV camera in Bentonville and communicate a message to all of Wal-Mart's associates who were gathered in break rooms nationwide. Walton asked his associates to raise their right hands and repeat the following pledge, "What we say at Wal-Mart is that a promise we make is a promise we keep – and I want you to repeat after me: From this day forward, I solemnly promise and declare that every time a customer comes within ten feet of me, I will smile, look him in the eye, and greet him. So help me Sam."<sup>138</sup>

Walton humbly writes that he really does not know the impact his little pledge had on his associates and the company, but it was that year coincidentally, that Wal-Mart surpassed Kmart and Sears in sales at least two years before any of the analysts declared possible.

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<sup>137</sup> Walton, 221.

<sup>138</sup> Ibid., 285.

#### 4.4. ASPECTS OF INTERNATIONAL BUSINESS

Internationally, Wal-Mart's main targets are the consumers of Third World countries because they most closely resemble its "upwardly mobile, and working class" customers in the United States of the late 1960s and early 1970s.<sup>139</sup> Says Millard Barron, Senior Vice President and Chief Operating Officer of Wal-Mart International, "Third World nations hold an unmet demand for durable consumer goods, particularly by young adults. So if the lower end of the spectrum in wage earners is growing in numbers in income, they're the people that don't yet own a lot of products."<sup>140</sup>

Additionally, the current economic and political climate highly favors Wal-Mart's international endeavors. Barron reasons, "There's the free trade issue with NAFTA. Borders are being eliminated around the world with NAFTA, and going from one currency to another is easier than it used to be. Then there's technology, which is changing how business is done around the world. Wal-Mart International is plugged into all the things we're plugged into in the U.S."<sup>141</sup>

Wal-Mart's targeting of Shenzhen in China was based on a government-directed modernization plan including superhighways and skyscrapers. Says Barron,

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<sup>139</sup> Debby Garbato Stankevich, "Wal-Mart Internacional: Venemos Por Menos (We Sell for Less), Discount Merchandiser, August 1996, 53.

<sup>140</sup> Ibid.

<sup>141</sup> Ibid.

“When you think of China, you think of ox carts, but this whole city is a construction project. Just a decade ago, this was a little fishing village.”<sup>142</sup>

To prepare for Wal-Mart’s venture into China and Indonesia, many Asian retailers conducted extensive studies on their American rivals to try and uncover the secrets to its success. Mega M, Indonesia’s largest discounter, went as far as adopting the motto of “Guaranteed: Lower Prices Every Day,” to compete with Wal-Mart’s Indonesian motto of, “Cheap Prices Always.” Additionally, due to the Wal-Mart presence, Asian discounters are being forced to adapt to American retail practices such as coordinated endcap displays, fixture-topper price signs, and manufacturer-supplied barcoding.<sup>143</sup> A store in Indonesia, for example, posted a store greeter – a purely Wal-Mart innovation.

On adopting American discounting principles Bobby Martin, President of Wal-Mart International, says, “It tells you that what you’re doing is going to catch hold: the idea of giving the consumers the power, the control. When these companies find they must operate more efficiently, it does put more money into the pocketbook of the consumer, and that causes the level of demand to increase.”<sup>144</sup>

In true Wal-Mart fashion, however, Martin claims he took copious notes on the upgrading the Asians were doing to counter Wal-Mart’s infiltration, “We’ve

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<sup>142</sup> Ibid.

<sup>143</sup> James Mammarella, “Price War Rages as Wal-Mart Opens Second Store in Indonesia,” Discount Store News, 6 January 1997.

<sup>144</sup> Ibid.

learned things from them as well regarding product mix and customer behavior patterns.”<sup>145</sup>

Also in true Wal-Mart fashion, it is currently investigating the possibility of building two more stores in China, and was considering adding two more stores in Indonesia prior to the collapse of Indonesia’s economy. Although CEO Glass revealed in 1997 that Wal-Mart’s investment in Asia was approximately \$80 million, analysts speculate that it is currently hovering near the \$100 million mark.

Three years ago Wal-Mart purchased a chain of 122 Woolco Stores in Canada. Today, Wal-Mart’s stores number 137, and it has risen to the top of the retail market, unseating the Zellers Department Store Chain who, until Wal-Mart showed up, was Canada’s long-standing retail leader.

According to an article in Chain Store Age entitled, “Wal-Mart Wages Value War in Canada,” a study conducted by the Queens University’s School of Business found that Wal-Mart has edged ahead of the competition; most notably Zellers, Kmart, Hudson’s Bay, and Sears.

The study, which surveyed 400 female heads of house holds, found that Wal-Mart has actually changed the way Canadians shop. In pre Wal-Mart days it was noted that Canadians often based their choice of retailer on how close the store was from their front door. Now, however, the study concluded that location took a back seat to lower prices and service considerations.

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<sup>145</sup> Ibid.

The study cited that:

It can be inferred that Wal-Mart's emphasis on Every Day Low Prices took the market by storm during the first 18 months of operation. But as customers became more familiar with Wal-Mart, they came to realize that the store stood for more than low prices. As a result, such criteria as helpful, friendly service steadily rose in importance, as did the ability to 'find what I want.'"<sup>146</sup>

Maybe most enlightening, and illustrative of consumers beginning to overlook the stigma once associated with shopping at discount retail stores, Wal-Mart was chosen over Zellers by a score of 27% to 15% by consumers as the store they would be most proud to tell others they shop in.

Conversely, Mexico claims Wal-Mart's largest inventory of international stores with 145, and next to Canada, is its most successful international venture. Notwithstanding, it has experienced some hard-learned lessons. With the passage of NAFTA, Wal-Mart was realizing substantial profit as 30% of the products it was selling in Mexico were American made. However, it suffered heavy losses in 1995 when the value of the peso plummeted and American products became too expensive for Mexicans to afford. These losses set Wal-Mart back two years in its aggressive expansion plans while restructuring its product mix to prevent it from taking substantial losses in the future should the Mexican economy experience similar economic uncertainties. Today, however, Wal-Mart de Mexico is showing healthy returns as the Mexican economy has turned around and consumer spending has picked up.

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<sup>146</sup> Author not given, "Wal-Mart Wages Value War in Canada," Chain Store Age, 1 October 1997, 49.

Analysts estimate Wal-Mart has incurred losses close to \$100 million since opening operations in its South American stores in Argentina and Brazil in 1995. Stiff competition, self-inflicted mistakes in merchandising due to not studying local conditions, and Wal-Mart's insistence on doing things its way has alienated some local suppliers. Nevertheless, Wal-Mart, with its deep pockets, says that the stores are currently meeting their expectations and should be turning a profit by 1999.

Wal-Mart's most notable problem in South America is one of its biggest strengths in the United States. Because it does not own its own distribution system, Wal-Mart is having a difficult time replenishing its shelves. Apparently, Wal-Mart stores in South America receive upwards of 300 deliveries a day, compared to only seven in the United States. This has hurt Wal-Mart's low pricing policy because it can not pass on savings associated with efficient distribution to its South American patrons like it does in the United States. Wal-Mart did, however, recently build warehouses in Argentina and Brazil to help remedy this problem.

Logistics has not been the only thorn in Wal-Mart's South American side. It has encountered problems with a number of local suppliers who refused to deal with Wal-Mart because the suppliers did not want to adhere to Wal-Mart's packaging and quality control standards. Other noted problems include the merchandising blunders of trying to sell cordless tools in nations that rarely use them, and leaf blowers in treeless Sao Paulo, Brazil.

Oversights aside, Wal-Mart takes its mistakes in stride. Says CEO Glass, "It's a lengthy process to go to South America, recruit good management, bring them to Wal-Mart and train them and indoctrinate them and teach them what you want to

teach them. It's slow going early on, and you spend a lot of money. You pay a lot of tuition to learn what you need to learn.<sup>147</sup>

An article in Discount Store News entitled, "International's Grade at Year 6: B+; a Country-by-Country Assessment of How Wal-Mart is Doing Globally," summarizes that in just the six short years that Wal-Mart tapped the international market, it has already managed to become the number one retailer in Canada and Mexico.

The article predicts that by the year 2000, Wal-Mart will establish a presence in six Central and South American nations, as well expand its Asian operations to possibly include South Korea and Thailand. Australia is also mentioned as a potential location.

Although it has encountered its share of problems, it has recovered admirably by turning around the misfortunes of not fully understanding the cultural nuances in the countries it currently operates, into potential fortunes. On the flip side, the article points out, Wal-Mart has been smart to not wager setting up shop in countries it feels it is yet prepared to turn profits in. For example, analysts claim that Wal-Mart is currently operating in the retail-sophisticated countries of Canada and Brazil to prepare it for a more robust move into Europe. Citing an overcrowded real estate market, a retail environment largely dominated by labor unions, tighter regulations, and more difficult cultural barriers, Europe is seen by analysts as a tougher retail puzzle to solve by Wal-Mart than its current Third World presence.

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<sup>147</sup> Jonathan Friedman and Louise Lee, "Wal-Mart Changes Tactics to Meet International Tastes," The Wall Street Journal, Internet, accessed 26 April 1998.

Wal-Mart International's Chief Operating Officer John Lupo minimizes this assessment, "When it comes to imparting the Wal-Mart culture in any country the first thing is to understand their culture. It is not our job to dictate any kind of Americanization. We're trying to learn their culture, respect their culture and adapt the Wal-Mart culture to their ways."<sup>148</sup>

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<sup>148</sup> James Mammarella "International's Grade at Year 6: B+; a Country-by-Country Assessment of How Wal-Mart is Doing Globally," Discount Store News, 3 March 1997, 63.



## **CHAPTER 5 - CONCLUSION**

As revealed throughout this paper, Wal-Mart is a corporation whose numbers speak to its successes. Incredible sales captured throughout its gigantic inventory of domestic and international stores easily make it the number one discount retailer in the world. It did not gain its industry dominance through sloppy operations and inattention to detail, therefore, finding weaknesses in an organization as strong as Wal-Mart presented quite a challenge. Nonetheless, Wal-Mart is not without its subtle shortcomings.

As evidenced by an enormous string of recent department store closures, the Discount Retail Industry is becoming more and more competitive as each year passes. Only the strong survive on this battlefield littered with Chapter 11 casualties. Because of this, the retailers left standing are forced to offer similar commodities within pennies of their competitors. Therefore, as discussed earlier, the consumer's freedom of choice, as well as their power to bargain is very high. With the competition as stiff as it is, some industry analysts are questioning Wal-Mart's ability to continue posting its remarkable yearly sales figures, such as topping the \$100 billion mark in 1997.

One option Wal-Mart is exercising in its quest to maintain its present profitability, while at the same time, securing future financial security, is venturing into the grocery business. The U.S. grocery trade, three times that of the discount retail industry, offers Wal-Mart the opportunity to capitalize on its state-of-the-art transportation and distribution systems in a newly challenging and rewarding role. Thus far, Wal-Mart has done superbly.

Wal-Mart's use of information technology is unquestionably its greatest strength. Wal-Mart specifically develops and utilizes its automation to maximize time while cutting costs. Its investment in this discipline has generously paid off. Through its innovative use of technology, high service levels are maintained, sales steadily increase, and Wal-Mart saves 25% in inventory spending. Most noteworthy, Wal-Mart has reduced its inventory-restocking time from an industry average of six weeks to thirty-six hours.<sup>149</sup>

Moreover, by keeping track of every sale to determine what is selling frequently, opposed to what remains on the shelf for extended periods of time, Wal-Mart stores are better able to keep their shelves stocked with the best selling items, resulting in tighter inventories and highly competitive prices.

Last year alone, Wal-Mart set aside approximately 7% of its \$3 billion capital budget for technological investment. Additionally, Wal-Mart increased the number associates who work in its Information Systems Division in Bentonville, Arkansas from 1000 to 1300 just to complete a backlog of technological projects it is researching.

Nonetheless, although Wal-Mart's use of this technology is cutting-edge, and other retailers are continually trying to play catch up, Wal-Mart's technical associates continue to work day and night to tighten Wal-Mart's grip on even more innovative uses.

Summarizing section 3.2., Wal-Mart's groundbreaking use of point of sale information allows it to share profits with the largest fast food restaurant chain in the

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<sup>149</sup> Davidow, 23-4.

world; McDonalds. Its state-of-the-art client-server operations places most of the replenishment burden on its suppliers, and the analysis conducted by its decision support systems yields insightful information from which Wal-Mart designs its store layouts to maximize space, and thus profits.

Internationally, in only its seventh year of conducting business outside of America's borders, Wal-Mart is well on its way to navigating the cultural obstacles present in seven different countries. In its quest to plant its flag while replicating its sales Millard Barron, Senior Vice President and Chief Operating Officer of Wal-Mart International says:

We're not just cookie-cutting our U.S. formats and plopping them down all over the world, we have to balance the cultures, being open-minded and proactive. Just because it works in the U.S. doesn't mean it works around the world."The Wal-Mart name is much better known outside the United States than I ever imagined. Wal-Mart has come to mean best value, low costs, and broad selection. If we can deliver on those expectations, then I think we can show very significant growth for a long time to come."<sup>150</sup>

Findings are that Wal-Mart International is successfully replicating its principles, disciplines and culture internationally and truly becoming a global force.

Wal-Mart is a company firmly in control of the marketing principles discussed in section 3.4. Its inventory of stores is so magnificent that it is simply running out of room for new locations. No other competitor comes close in comparison to its state-of-the-art distribution operations, and similarly, no other retailer can boast of an equally loyal following of satisfied customers.

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<sup>150</sup> Garbato.

Wal-Mart has perfected its strategic business practices to a science. In a time when other retailers have to concern themselves with just staying afloat, while keeping a concerned eye open to the threat of new entrants, Wal-Mart is prospering and mainly concerned with how to keep growing.

Numerous strengths aside, Wal-Mart has had to contend with its share of criticism. Competitors have challenged Wal-Mart on its integrity, regarding its pricing policies which are hard to match, and harder to beat. Although initially found guilty of unethical business practices in 1993, but exonerated 3 years later, continuing challenges on pricing by competitors will likely force the hand of justice to investigate these allegations. If the dust does not settle on this issue, the threat of litigation and defending against anti-trust actions could become Wal-Mart's biggest threat.

The biggest thorn in Wal-Mart's side, however, is the ever-increasing scorn it has received from small town business owners and residents alike. Wal-Mart can not seem to free itself from the criticism of being insensitive to the plight of the small, local business owners who quake in their boots when they hear the news of a Wal-Mart setting up shop nearby. Considering themselves in an inevitable kill zone against an impenetrable adversary, these merchants have banded together across the country in an attempt to either uncover what it will take to halt the expansion of a Wal-Mart into their towns, or figure out how to keep their doors open for business after a Wal-Mart opens its doors.

Regardless, it is clearly not Wal-Mart's intention to slow down. As stated earlier in this paper, near-saturation in the United States has forced Wal-Mart to not

only try its hand at selling groceries, but to venture across international boundaries to help it keep its sales on the upward trend established during Sam Walton's leadership.

But to some small town merchants, Wal-Mart's aggressiveness is secondary to its reputation for being "all take and not enough give." Says Halcyon Blake, a merchant from Bath, Maine:

We have to focus on being good citizens and giving back to the community. We have to focus on making that story available to people – not just making it available but stuffing it down people's throats. There's no argument that you can get a damned light bulb for 10 cents cheaper at Wal-Mart than you can at John Hickborn's hardware store. But do people know that John Hickborn is a major contributor to Elmhurst trade school for the handicapped? He works at finding jobs for people from Elmhurst. If Hickborn goes out of business because people want a cheaper light bulb, then you lose more than just the tax revenues that business generated."<sup>151</sup>

On locating in small-town America, Sam Walton wrote that he is opposed to this kind of conflict from small-town citizens:

I encourage us to walk away from this kind of trouble because there are just too many other towns out there who do want us. For every one that doesn't, I'd say we have another two hundred begging us to come to their town. Wal-Mart wants to go where it is wanted. I've always said that the simplest test of how right we are on this issue would be to go into any town where we've been for a couple of years and let everyone vote on whether they want us there or not. My Lord, they'd go crazy if we left."<sup>152</sup>

Although those currently in charge of Wal-Mart do not seem to be practicing what Sam preached back in 1992, the want for ringing cash registers clearly outweighs small-town cohesion it seems. Wal-Mart will overwhelmingly have its way, and many of those who oppose its encroachment seem to join into Wal-Mart's scheme since they can not beat it.

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<sup>151</sup> Edward O. Wells, "When Wal-Mart Comes to Town," Inc. Magazine, July 1993. 89.

<sup>152</sup> Walton, 183.

Ironically, Wal-Mart's corporate headquarters boasts at every opportunity its support for the local communities in the following areas:

- ◆ Underwriting college scholarships for high school seniors.
- ◆ Raising funds for children's hospitals, churches, Boy and Girl Scouts, park projects, police and fire departments, food banks, senior centers, etc.
- ◆ Educating the public about recycling and other environmental topics.
- ◆ Hosting monthly "Satellite Town Meetings."<sup>153</sup>

Nonetheless, Wal-Mart has gained the unshakable reputation for being a company who, without conscience, takes more from the community than it gives back. Based on a year's research, the number of articles supporting Wal-Mart's desire for profitability outweighs articles I have uncovered detailing its charitable contributions to small-town America by at least 100 to one.

Wal-Mart only advertises on a monthly basis where many of its competitors publish sales flyers weekly. Yet on every occasion Wal-Mart flaunts the dollars it saves on non-advertising due to its well-known reputation as the low price leader. It should consider reinvesting some of its profit dollars back into its advertising budget to educate local citizens as to its programs designed to give something back to the community, provided of course, these claims ring true.

In addition, it should consider placing public relations representatives in each local store whose main charter is to publicize to the local populace exactly what each

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<sup>153</sup> Wal-Mart Corporate Info, The Story of Wal-Mart, <http://www.wal-mart.com/cgi-bin/htmldisp?ci:7>, Internet, accessed 22 April 1998.

local Wal-Mart is giving back to its community. If Wal-Mart can afford a greeter in every store, why not a person to inform the public that Wal-Mart not only cares about profits, but small-town values and concerns as well.

Clearly, from his autobiography, Sam Walton was sensitive to the issues of unchecked growth versus going where you are wanted and giving substantially back to communities. The current leadership seems to reject these two values while focusing the heart of its efforts on expanding its presence and raising its profits. Ensuring the retention of its number one title in the discount retail industry is unquestionably a noteworthy accomplishment. Regardless, at some point in time more and more consumers will become concerned as to the overall well-being of their communities versus how many pennies they can save on a bar of soap. Wal-Mart needs to realize this as well, and stop merely paying lip service to how well it supports small town America. It is time for Wal-Mart to start practicing what it preaches.

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